



# THE HIGH-WIRE ACT AT TESCO

Another double for the dominant supermarket chain and its surefooted leader as they scoop the top awards again in our Britain's Most Admired survey. The skill with which Sir Terry Leahy and his team have stormed the market both overseas and online is phenomenal. But there are flaws that could cause an almighty tumble

**T**he Cheshunt Mob has done it yet again and 2006 is Tesco's year. The UK's mighty grocer has walked off with both accolades in *MT*'s Most Admired Company Awards, presented in association with Mercer Human Resource Consulting: for Most Admired Company itself and, in Sir Terry Leahy, Most Admired Leader. Tesco has now taken those dual honours three times in four years, which is a record.

Leahy consistently performs an amazing high-wire act. The whole country is sitting below him, watching as he climbs his angled steel tightrope ever higher. There are many who expect to see him stumble, some who actively wish him to fall. But, like a latter-day Blondin, he just keeps on placing one soft-soled shoe in front of the other, gripping his balancing pole and heading for the stratosphere. Next year is his 10th anniversary as CEO and Leahy is still only 50.

This sure-footedness is extraordinary. Turnover and profits just keep going up and up. Tesco's half-year results, announced in October, showed profits up by 12.5% to £1.15 billion, with a huge boost coming from inter-

national sales. From the Czech Republic to Taiwan, its sales abroad are growing at three times the rate they are in the UK. At online arm Tesco.com, profits were up an amazing 43.1% and one fifth of UK sales are now non-food.

However, as *MT* has pointed out before, there are factors that may cause a wobble. We have been concerned for several years that in the Community & environmental responsibility category Tesco does not pass muster. According to its peers, Tesco is far from the greenest or most responsible of grocers.

This year, Tesco has fallen below halfway in this CSR category – it comes a pretty dismal 136th out of the 239 companies. Despite its stellar performer on the global stage, Tesco is regarded as below the mean in terms of UK corporate citizenship, beneath the average performer in the British business firmament. This is not good enough. There are dark rumours that those who give Tesco advice in the CSR area find their entreaties falling on deaf ears.

The heat is now really being turned up on the supermarkets in this contentious area. The Stern Report on climate change drew further attention to the adverse effects of 'food miles'

and the sector is under further attack over excessive packaging. But if one talks to campaigning NGOs in the area of sustainability, they speak glowingly of, for example, Marks & Spencer's and Waitrose's efforts to do the right thing, but they despair of their conversations with Tesco.

This year, there is another small but perhaps growing worry for Leahy. In the vital Quality of goods & services category, Tesco falls to 33rd place overall, down from 10th last year. What is most significant is that Tesco is beaten by both M&S and J Sainsbury in this category. This must be a risk as the company becomes ever broader in the range of goods and services it offers – everything from mobile phones to pesto sauce, insurance and washing-machines.

There is also next year's long-awaited push into the US, which has proved a graveyard for so many ambitious UK retailers. 'What Tesco has achieved is hugely impressive,' says Professor Mike Brown of Nottingham Business School, the creator of and brains behind the Most Admired survey. 'It's unprecedented in the 15-year history of the survey.'

'The fact remains that one has to look for chinks in its armour – we've spotted them early in fallers from grace before – and there are issues to which Tesco should probably pay close attention. Nevertheless, these caveats aside, Tesco remains an immensely powerful organisation and is probably the country's best-managed company.'

The other big story this year is the rise of the quietly excellent Johnson Matthey, second in the overall poll. Founded way back in 1817 as an assayer of gold, the organisation is an example of a British company at the top of its game. In its Chemicals sector it swept the board, coming first in every single quality category. These days, it dominates the market for automotive catalytic converters. In addition, it is an expert in the area of fuel cell technology. When somebody finally cracks that nut and we can all cast aside the oil-sucking internal combustion engine, there is a mountain of money to be made and Johnson Matthey will be in there.

Carphone Warehouse is another big climber – up 45 places to number 5. It also achieved the distinction of coming first in every single quality category among General retailers.

It has been quite a year for Carphone Warehouse, with as many downs and negative headlines as ups. But its peers clearly see it building for the future. In some senses a victim

of its own success, with demand for its TalkTalk service outstripping its ability to cope, Carphone Warehouse has laid down the foundations for making itself a mega-player in the international telecommunications arena.

GlaxoSmithKline has fought its way back into the top 10, climbing 61 places to number 4. And Balfour Beatty, not so long ago a whipping boy for the shortcomings of rail privatisation, is winning orders and acclaim worldwide. It rises 14 places to number 6.

Then there is also Michael Spencer's Icap, the inter-broker dealer, which has shot up 93 places into the top 10 at number 6. Spencer has even been suggested as a potential bidder for London Stock Exchange. That takeover would have been a real turn-up for the books.

But the most celebrated story of 2006 has to be the revival of Marks & Spencer and the placing of its CEO Stuart Rose second in the Most Admired Leader poll. We profile Rose on page 38 of this month's issue. M&S is unquestionably on a joyous roll at the moment. From



**'ONE HAS TO LOOK FOR CHINKS IN TESCO'S ARMOUR AND THERE ARE ISSUES TO WHICH IT SHOULD PROBABLY PAY CLOSE ATTENTION'**

being the butt of jokes and finding itself so weak that it wound up in the sights of the predatory Philip Green, it has returned to the collective heart of the British shopper as the nation's favourite store. Who thought it could ever go glam again, and aren't its white boxer shorts in packs of three a serious bargain? Rose loves every minute of it.

Life does not, sadly, smell of roses for every company in Most Admired. Down at the bottom end, times are tough for the stragglers. British Energy gets the wooden spoon this year, amid headlines that it is 'cracking up' – which is a serious problem if your main raw material is uranium.

The company had boiler tube cracking at Hunterston B and Hinkley Point B reactors, not to mention leaks in the piping of the cooling system at Hartlepool. Its share price took a fearful battering. Still, with nuclear energy back on the agenda as a key part of our departing prime minister's solution to global warming, the only way if you're at rock bottom

is up (assuming, of course, the French don't get all the contracts for the new ones).

Also among the bottom feeders is the hapless MFI, which was ignominiously sold for £1 to a private equity consortium in late summer. ('That was 99p more than most of its furniture is worth,' according to one wit.) The agony is over as MFI is now delisted and therefore ineligible for Most Admired next year.

Not so for Rentokil Initial, which came last in every quality category except one in the Support services sector – the exception being a second place in Community & environmental responsibility. (This is alarming news for those in the CSR lobby who claim a direct correlation between being a good corporate citizen and the bottom line.)

Also in the flock of lame ducks is Northern Foods, which continues to suffer – last in every measure in the Food producers sector except CSR and Capacity to innovate, in which it trailed in seventh and eighth respectively out of 10. Clearly, Goodfella's pizzas and Fox's bis-

cuits just don't get the nation's juices flowing like they used to.

Mind you, it didn't do as badly as iSoft, which came in at Number 235. One of the main contractors behind the NHS's ill-fated IT revamp, iSoft has taken a reputational drubbing this year. The whole £2 billion modernisation of patient records has come close to unravelling. iSoft is now under investigation by regulators for accounting irregularities.

Among the wreckage there is a glimmer of hope, though. iSoft came top in its Software and Computer sector for its Quality of goods & services. Unfortunately, it came last for Quality of management, Financial soundness, Value as a long term investment, Community & environmental responsibility and Use of corporate assets. This is quite an achievement, which suggests it is a high-IQ techie lion led by donkeys. Now, where have we heard that before? **mt**

Full details on [www.mostadmired.co.uk](http://www.mostadmired.co.uk)

## HOW THE WINNERS WERE CHOSEN

# MOST ADMIRED LEAGUE TABLE 2006



'06	'05	Company	Score	'06	'05	Company	Score	'06	'05	Company	Score	'06	'05	Company	Score
1	1	Tesco	69.80	61	93	Boots*	59.64	121	-	Northgate Information Solutions	53.92	180	88	Travis Perkins	49.17
2	11	Johnson Matthey	69.35	62	47	Barratt Developments	59.62	=181	211	Elementis	49.00				
3	2	BP	69.33	=63	99	Schroders	59.50	122	181	Associated British Ports	53.75	=181	188	Chemring Group	49.00
4	65	GlaxoSmithKline	69.17	=63	60	Wilson Bowden	59.50	=123	136	Old Mutual	53.67	=181	-	Go-Ahead Group	49.00
5	50	Carphone Warehouse	69.08	65	57	GUS	59.28	=123	98	Yell Group	53.67	184	-	BRIT Insurance	48.97
6	20	Balfour Beatty	67.50	66	-	easyJet	59.21	125	110	Restaurant Group	53.61	=185	161	HolidayBreak	48.83
7	97	Icap	67.40	67	163	Scottish & Southern Energy	59.20	126	152	Cairn Energy	53.60	=185	-	Computacenter	48.83
8	31	Rolls-Royce	67.24	68	-	Redrow	59.18	127	173	Robert Wiseman	53.57	187	11	SCI Entertainment Group	48.42
9	3	Cadbury Schweppes	67.21	69	84	De Vere*	59.17	128	111	Meggitt	53.35	188	127	BBA	48.25
10	13	Man Group	67.20	70	41	Legal & General Group	59.00	129	129	Xstrata	53.33	189	146	Dairy Crest	48.21
11	59	AstraZeneca	67.00	71	-	Spirax Sarco Engineering	58.83	130	-	RHM	53.31	190	-	First Technology*	48.00
12	-	Berkeley Group	66.22	72	32	Pilkington*	58.77	131	130	Lloyds TSB	53.24	191	-	TT electronics	47.75
=13	6	Serco Group	66.00	73	138	Brixton	58.67	132	101	Standard Chartered	53.21	192	-	Autonomy	47.58
=13	21	Rotork	66.00	74	131	Investec	58.60	133	-	Charter	53.13	193	91	Daily Mail & General Trust	47.50
15	66	Land Securities	65.47	75	-	Bellway	58.44	=134	143	Croda International	53.00	194	115	United Utilities	47.47
16	4	Unilever	65.44	76	70	Northern Rock	58.20	=134	112	VT Group	53.00	195	213	WM Morrison	47.21
17	124	Marks & Spencer	65.21	77	55	George Wimpey	58.10	=134	-	Center Parcs*	53.00	196	156	HMV	47.10
18	56	J Sainsbury	64.86	=78	120	SIG	58.00	137	69	Emap	52.92	197	194	Matalan	46.67
19	7	Diageo	64.74	=78	62	Reckitt Benckiser	58.00	138	-	QinetiQ Group	52.91	198	139	Kelda	46.13
20	114	Close Brothers	64.25	=80	150	ICI	57.80	139	-	Monsoon	52.78	199	-	Eircom*	46.00
21	10	HBOS	63.71	=80	119	Alliance UniChem	57.80	140	95	JD Wetherspoon	52.76	200	-	Group 4 Securicor	45.96
=22	8	Vodafone	63.64	=82	89	Scottish & Newcastle	57.60	141	118	Admiral	52.74	201	-	Dimension Data	45.79
=22	16	IMI	63.64	=82	-	Bovis Homes	57.60	142	144	Brambles Industries	52.48	202	175	ITV	45.64
24	17	BHP Billiton	63.42	84	52	Taylor Woodrow	57.57	143	148	Great Portland Estates	52.39	203	184	Umeco	45.50
25	-	McCarthy & Stone	63.06	85	77	Smith & Nephew	57.42	=144	102	Whitbread	52.33	204	164	Alliance & Leicester	45.31
26	25	HSBC	63.05	86	46	BOC*	57.38	=144	-	Laird Group	52.33	205	202	SSL International	45.29
27	18	Wolseley	63.00	87	42	Cobham	57.31	146	132	Anglo American	52.25	206	171	Compass	45.24
28	51	Aviva	62.86	88	76	Associated British Foods	57.19	=147	133	Shire	52.00	=207	-	Regents Inns	45.20
29	14	BG Group	62.76	89	75	Barclays	56.99	=147	-	Psion Teklogix	52.00	=207	201	London Merchant Securities	45.20
30	-	Kier Group	62.57	90	49	Bunzl	56.97	149	24	Punch Taverns	51.94	209	207	Vedanta Resources	45.08
31	92	InterContinental Hotels	62.56	91	94	Friends Provident	56.80	150	116	BSS	51.75	210	-	Seven Trent	44.92
32	86	BAE Systems	62.40	92	-	Resolution	56.67	=151	-	Hikma Pharmaceuticals	51.67	211	-	Invensys	44.75
33	-	Domino Printing	62.33	93	23	Tomkins	56.56	=151	165	Arriva	51.67	212	185	Bradford & Bingley	44.72
34	63	3i	62.00	94	-	Galliford Try	56.50	153	-	Keller Group	51.43	213	-	Kazakhmys	44.67
35	12	Carnival	61.86	95	162	Premier Foods	56.44	154	-	Premier Farnell	51.40	214	-	Vanco	44.30
36	-	ARM Holdings	61.67	96	141	Stagecoach	56.30	155	73	St James's Place Capital*	51.25	215	169	Scottish Power	44.22
37	157	Virgin Mobile	61.54	97	83	Quintain Estates	56.10	156	44	Wolverhampton & Dudley	51.23	216	-	Countrywide	43.63
38	85	BT Group	61.50	98	87	Smiths Group	56.02	157	-	Low & Bonar	51.00	217	-	MyTravel	43.57
39	34	Royal Dutch Shell	61.48	99	100	Liberty International	56.00	158	96	Kingfisher	50.82	218	-	LogicaCMG	43.54
40	58	BAA	61.05	100	142	Pearson	55.93	159	187	Signet	50.68	219	198	Thus Group	43.50
=41	19	Royal Bank of Scotland	61.00	101	81	Reed Elsevier	55.58	160	154	Halfords	50.64	220	176	SkyePharma	43.33
=41	5	BSkyB	61.00	102	113	FKI	55.53	161	153	International Power	50.61	221	205	Millennium & Copthorne	43.29
43	9	Mitchells & Butlers	60.92	103	193	Whatman	55.40	162	186	Cookson	50.57	=222	218	COLT Telecom	43.20
44	90	Hammerson	60.86	=104	159	Rexam	55.36	=163	199	Telecom plus	50.50	=222	208	F&C Asset Management	43.20
45	35	WPP Group	60.83	=104	-	ROK Property Solutions*	55.36	=163	-	Spectrics	50.50	224	196	Dyson Group	42.75
46	109	Morgan Sindall	60.75	106	155	Provident Financial	55.20	=165	167	Electrocomponents	50.40	225	64	Centrica	42.53
47	30	Rio Tinto	60.67	107	151	Cattles	55.00	=165	-	Anvescap	50.40	226	200	Kingston Communications	42.33
48	48	British Airways	60.64	108	15	Burberry Group	54.95	167	-	Informa	50.29	227	-	Xansa	42.17
49	43	Tate & Lyle	60.63	109	-	DSG International	54.89	168	-	Henry Boot	50.14	228	209	Woolworths	41.90
50	38	Next	60.50	110	28	SABMiller	54.88	169	195	FirstGroup	50.00	229	-	Drax	41.83
51	53	British Land Co	60.42	111	128	Prudential	54.75	170	180	Yule Catto	49.83	230	189	Northern Foods	41.75
52	40	Marshalls	60.40	112	79	National Grid*	54.67	171	170	Corus	49.75	231	-	MJ Gleeson Group	40.64
53	22	Capita Group	60.33	113	190	Royal & Sun Alliance	54.50	=171	-	Spirent	49.75	232	211	Delta	40.50
54	45	Persimmon	60.27	114	158	National Express	54.40	=173	121	Hanson	49.71	233	-	Misys	39.42
55	27	Halma	60.03	115	71	GKN	54.38	=173	149	Aria Foods UK	49.71	234	214	Rentokil Initial	39.37
56	74	Carillion	59.92	116	37	Enterprise Inns	54.37	175	178	Slough Estates	49.67	235	-	iSOFT	38.33
57	33	Weir Group	59.90	117	107	Hays	54.32	176	203	WH Smith*	49.45	236	-	Porvair	38.25
58	137	Victrex	59.88	118	108	Morgan Crucible	54.25	177	61	Amec	49.44	237	210	Cable & Wireless	38.17
59	54	First Choice	59.78	119	122	Reuters	54.14	178	174	Kesa Electricals	49.39	238	206	MFI Furniture	36.86
60	29	Greene King	59.75	120	-	Costain Group	54.08	179	-	Sage Group	49.33	239	220	British Energy	36.13

\*Merged, acquired or name changed

In conjunction with Nottingham Business School, MT asked Britain's 10 largest public companies in 24 sectors (nine in the case of banking) to evaluate their peers. Participants rated their nine sector rivals on a scale of 0 to 10 (0 = poor, 5 = average and 10 = excellent). Performance was rated against nine criteria. Analysts at leading City investment firms

were also polled. On the basis of these scores, three rankings were arrived at: all 239 companies (above); top five overall on each criteria (tables p29); and league tables in each category (pp31, 32, 35). Respondents were also asked to name the leader they most admired. Research conducted by Professor D Michael Brown of NBS and Stuart Laverick.



## ★ WINNERS IN THE NINE CATEGORIES

### **JP GARNIER CEO, GLAXOSMITHKLINE**

Pharma giant GSK is in fine fettle, negotiating flak from animal rights activists and advancing 61 places to fourth Most Admired overall – proof that fear of bird flu is a boon to those who make the vaccines. It caps a fine year by joint-winning the Quality of goods and services award. Garnier became chief exec when Smith-Kline Beecham merged with Glaxo Wellcome in 2001.

### **CHARLES DUNSTONE CEO, CARPHONE WAREHOUSE**

Dunstone's outfit marches from 50th to fifth Most Admired overall, sharing the Capacity to innovate award and coming second in Quality of marketing. Carphone Warehouse launched its free broadband service in April and demand was so high the company struggled to cope. Despite the resulting £4.6m loss, Dunstone's peers clearly don't see him losing his magic touch.

**NEIL CARSON CEO, JOHNSON MATTHEY**  
In his two years as boss, Carson has led the world-leading maker of automotive catalytic converters to great things. Joint winner of the Quality of

goods and services award, it topped its sector and was second overall. Founded in 1817 as a gold assayer, it is still based in Hatton Garden, London.

### **WARREN EAST CEO, ARM HOLDINGS**

With roots in the BBC Microcomputer, ARM is the most successful survivor of the early '80s British computing start-ups. It designs and makes the compact high-performance RISC processors used in just about every modern gadget from mobile phones to MP3 players. In a market dominated by giants like Intel and Motorola, ARM lives on its wits and is thus a deserving joint winner in the innovation category. East was made CEO in 2001.

### **TODD STITZER CEO, CADBURY SCHWEPES**

The Most Admired Company two years ago has now slipped to ninth overall. A year blighted by an overblown salmonella scare in which it is most unlikely anyone became ill is probably one Cadbury would probably rather forget. Yet Stitzer's outfit is still admired above all others for its Quality of marketing, and it came within a whisker of taking the prize for attracting and retaining talent as well.

### **MARK CLARE CEO, BARRATT**

Clare has just taken over the hot seat at Barratt, following the retirement of long-standing boss David Pretty. With UK house prices showing no signs of deflation, Barratt is having a good run. Its finance staff know their onions too: the firm won this year's Use of corporate assets award.

### **SIR JOHN ROSE CEO, ROLLS-ROYCE**

Most fittingly for a company whose name is synonymous with the very highest standards of workmanship, Rolls-Royce is this year's joint winner of the Quality of goods & services award. Despite the delays to the Airbus superjumbo, many of which will have its Trent 900 engines, numerous orders for other Rolls-powered aircraft – plus the prospect of a revival in the nuclear industry – have made 2006 a great year for the company, and for boss Sir John Rose.

### **BEN VERWAAYEN CEO, BT**

Verwayen has one of the toughest jobs on the corporate block. BT is a high-profile easy target for whingeing and protest – not unlike the old British Rail. In addition, Telecoms is always a low-

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British premiere (left to right): JP Garnier, Charles Dunstone, Neil Carson, Warren East, Todd Stitzer, Mark Clare, Sir John Rose, Ben Verwaayen, Sir Terry Leahy and Alan Gow

scoring sector in Most Admired and BT comes third behind Vodafone and Virgin Mobile. But it has always striven to be a good corporate citizen and its efforts have yielded the award for Community & environmental responsibility.

**SIR TERRY LEAHY CEO, TESCO**

The year yet again belongs to Tesco and Leahy as they do the double – Most Admired Company and Most Admired leader, respectively – for the third time in four years. Tesco also wins the awards for Quality of management, Financial soundness and Value as a long-term investment. For Community and environmental responsibility, however, it has fallen below the overall Most Admired mean.

**ALAN GOW MD, VIRGIN MOBILE**

An impressive year for Virgin Mobile, which takes the award for Ability to attract, develop & retain top talent, as well as climbing to third place in its sector rankings. It has been a busy year for the telecoms division, bought by NTL/Telewest for £962m (effectively a reverse takeover). Alan Gow, Virgin Mobile's former FD, took over as MD in July, having joined the business in 1999.

## MEASURES OF SUCCESS

Company performances were judged against nine criteria. Here are the highest-scoring contenders in each category...

**Quality of management**

1	Tesco	8.6
2	Icap	8.4
3	BP	8.3
4	Man	8.2
5	Balfour Beatty	8.16

**Financial soundness**

1	Tesco	9.0
2	Vodafone	8.8
3	HSBC	8.7
=4	BP	8.5
=4	Johnson Matthey	8.5

**Ability to attract, develop & retain top talent**

1	Virgin Mobile	8.7
2	Cadbury Schweppes	8.29
3	Johnson Matthey	8.25
4	Tesco	8.2
5	Unilever	8.1

**Quality of goods & services**

=1	GlaxoSmithKline	8.3
=1	Johnson Matthey	8.3
=1	Rolls-Royce	8.3
4	BT Group	8.2
5	AstraZeneca	8.0

**Value as a long-term investment**

1	Tesco	8.3
2	GlaxoSmithKline	8.0
3	BP	7.9
4	Serco Group	7.8
5	Icap	7.8

**Use of corporate assets**

1	Barratt Developm'ts	8.1
2	Rotork	7.62
=3	Persimmon	7.60
=3	Tesco	7.60
=5	Berkeley Group	7.55
=5	BP	7.55

**Quality of marketing**

1	Cadbury Schweppes	8.4
2	Carphone Warehouse	8.2
3	British Airways	8.14
4	Virgin Mobile	8.12
=5	Diageo	8.0
=5	Man Group	8.0

**Community & environmental responsibility**

1	BT Group	8.0
=2	AstraZeneca	7.5
=2	GlaxoSmithKline	7.5
=2	BHP Billiton	7.5
5	Serco Group	7.4

**Capacity to innovate**

=1	ARM Holdings	8.3
=1	Carphone Warehouse	8.3
3	Johnson Matthey	8.0
4	Quintain Estates	7.78
5	QinetiQ Group	7.77

# SECTOR BY SECTOR

The 24 industrial sector league tables form the nuts and bolts of Britain's Most Admired survey, revealing with stark simplicity the level of respect in which each contender is held by its main market competitors. Our reports summarise how the rivalries were played out in the uncertainties of 2006

## Banking

1	HBOS	63.7
2	HSBC	63.1
3	Royal Bank of Scotland	61.0
4	Northern Rock	58.2
5	Barclays	57.0

In another winning performance, Halifax Bank of Scotland – now led by Andy Hornby, Europe's youngest bank boss at 39 – beat bigger rivals to head its sector for the second year running, despite the Farepak furore. Scoring well for Quality of management and Capacity to innovate, it pipped high-street giant HSBC, despite the larger firm's £6.7bn half-year pre-tax profit. HSBC's success in emerging markets helped this record-breaking performance. RBS, third, also had a good 2006, with pre-tax profits up 23% to £4.5bn for the half-year to 30 June. CEO Fred Goodwin's stateside expansion continues apace. Northern Rock may be the minnow, but the Newcastle-based lender can take on all comers in the vital mortgage market.

## Home construction

1	Berkeley Group	66.2
2	McCarthy & Stone	63.1
3	Persimmon	60.3
4	Barratt Developments	59.6
5	Wilson Bowden	59.5

Barnardo's boy Tony Pidgley's Berkeley Group topped this new sector, with profits of £165m and a 24% return on capital invested. Following last year's £250m disposal of Crosby, Berkeley is focusing on urban brownfield development in the south-east. The only fly in its ointment is a fifth place for Community & environmental responsibility. McCarthy & Stone, the retirement-home specialist, is thriving, thanks to the power of the grey pound. Persimmon, the UK's largest housebuilder, sold 13,000 homes at an average price of £188,000 in the first half of '06. Barratt's new CEO Mark Clare, formerly of British Gas, will be hoping to better this year's profits, static at just over £390m. At fifth, Wilson Bowden's interim profits fell slightly to £85.5m.

## Building material & merchants

1	Wolseley	63.0
2	Marshalls	60.4
3	Pilkington*	58.8
4	SIG	58.0
5	BSS	51.8

Wolseley, the world's leading plumbing and heating gear supplier, romped home this year three points clear of the field. Double-digit growth made it a City darling in a sector not renowned for them. Recent activities include European expansion, with the £1.35bn purchase of Danish rival DT. CEO Chip Hornsby expects to spend £400m on acquisitions this year and is issuing 60m new shares to cut debt and finance growth. Yorkshire-based stone and concrete products business Marshalls made a respectable £38m profit on sales of £360m. A BMAC swansong this year for glassmaker Pilkington, now owned by Nippon Sheet Glass, is offset by two top five debuts: roofing/insulation specialist SIG and pipeline/ventilation outfit BSS Group.

## Electronic & electrical equipment

1	Domino Printing	62.3
2	ARM Holdings	61.7
3	Morgan Crucible	54.3
4	Laird Group	52.3
5	Psion Teklogix	52.0

Cambridge-based inkjet specialist Domino Printing made an impressive BMAC debut this year. The company – producing hi-tech equipment for printing barcodes, best-before dates and product-tracing data – made a £14m profit on sales of £100m in '06. Second in sector (and just down the road from Domino) is the UK's most successful (only?) microchip manufacturer, ARM Holdings. Chances are your mobile phone, MP3 and PDA all run on ARM chips. Morgan Crucible, supplier of ceramic and carbon components to the aerospace and telecoms sectors, is completing a large restructuring effort and is seen by many as a juicy M&A target. Psion Teklogix returned to form in fifth place, thanks to the success of its b2b mobile computing business.

## Chemicals

1	Johnson Matthey	69.4
2	Victrex	59.9
3	ICI	57.8
4	BOC*	57.4
5	Croda International	53.0

A storming performance from Johnson Matthey to head this sector, plus a remarkable second place overall. The firm (founded in 1817 as a gold assayer) is now the world's leading manufacturer of car catalytic converters and a key player in the development of environmentally friendly fuel cells. Pre-tax profits for '06 rose 28% to £213.8m. Runner-up Victrex offers just one product: a high-performance plastic called Peek, popular in a variety of industries. ICI is two places up on last year, but a shadow of its former self. Industrial gases group BOC was sold to German forklift maker Linde for £8.2bn in September. Yorkshire firm Croda made £49.2m profit in '05 from surfactants and lipids for the cosmetics and dietary supplements markets.

## Engineering – aero & defence

1	Rolls-Royce	67.2
2	BAE Systems	62.4
3	Cobham	57.3
4	Smiths Group	56.0
5	GKN	54.4

A vintage line-up, topped for the third year running by Rolls-Royce. Strong performances from its aero engine and marine engineering divisions helped R-R to a 22% rise in half-year profits, to £324m. Second is BAE Systems, which continued a strategic shift to the US with the sale of its stake in Airbus parent EADS. Will it go for a full US listing soon? Aerospace group Cobham, founded by aviation pioneer Sir Alan, has orders worth £1.7bn on its books and has been touted as a takeover target in the City. Smiths Group's security arm is booming as demand for its radiation detectors and security-screening equipment rises. The travails of the US car industry knocked GKN's automotive components arm, but its aerospace business continues to do well.

## Heavy construction

1	Balfour Beatty	67.5
2	Kier Group	62.6
3	Morgan Sindall	60.8
4	Carillion	59.9
5	Galliford Try	56.5

Balfour Beatty used to languish well down the Most Admired league tables, beset by the very public travails of its rail maintenance arm. But it has had a dramatic reversal of fortune, acknowledged with top slot in its sector and a 14-place leap up the main ranking to sixth overall. In October, it added the £363m contract to extend the East London line to a bulging order book – shared with Carillion (in fourth place). Bedfordshire-based Kier Group builds everything from houses and malls to PFI-funded public amenities; it made profits of £59m in '06. Third-placed Morgan Sindall, whose businesses include Lovell, the UK's leading provider of affordable housing, was ranked first for Capacity to innovate. Infrastructure specialist Galliford Try was fifth.

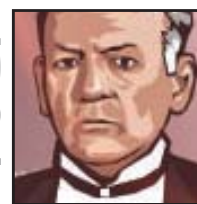
## Engineering & machinery

1	Rotork	66.0
2	IMI	63.6
3	Halma	60.0
4	Weir Group	59.9
5	Spirax Sarco Engineering	58.8

Supplier of gearboxes, valves, sluices and actuators to the oil and water industries, Bath-based Rotork notably gave James Dyson his first job. The oil-price boom helped it to a 26% rise in revenues and a £23m profit in the first half of the year. Birmingham's finest, IMI, is a conglomerate producing everything from power-generation gear to air-conditioning systems and vending machines. Halma, the world's biggest producer of lift-door safety sensors, should continue to do well as demand for its water supply management and anti-leak systems rises. Weir Group's new FD Keith Cochrane will be hoping to better the firm's 44% first-half rise in operating profits. Steam systems specialist Spirax Sarco came in fifth, with interim profits of £28.2m.

**BRITAIN'S MOST ADMIRABLE LEADERS 2006: 1 Sir Terry Leahy Tesco 24.3%...**

## JP GARNIER'S GSK IS SET FOR A GOOD WINTER AFTER SWISS FLU-VACCINE ORDER



### Food producers & processors

1	Cadbury Schweppes	67.2
2	Unilever	65.4
3	Tate & Lyle	60.6
4	Associated British Foods	57.2
5	Premier Foods	56.4

A bumpy year for sector leader Cadbury Schweppes. For a business that usually scores high on quality and CSR, July's salmonella alert at its Herefordshire factory was a shock that resulted in the recall of a million chocolate bars and cost the firm £20m. But chewing-gum is a star performer, and global leader Wrigley's is now in Cadbury CEO Todd Stitzer's sights. Unilever always scores well in Most Admired, despite its struggle to effect central control of its disparate businesses. But its rivals respect its latent strengths. A new chairman is to be named. By divesting non-core assets, Tate & Lyle is turning into a 'highly renewable ingredients' group featuring star performing sweetener Splenda. Less sugar, but still out of the strong comes forth sweetness.

### Media

1	BSkyB	61.0
2	WPP Group	60.8
3	Pearson	55.9
4	Reed Elsevier	55.6
5	Reuters	54.1

BSkyB outstripped its rivals in its Capacity to innovate, with CEO James Murdoch unveiling a long list of ventures, including the launch of a high-definition TV service and a broadband offering. Its video-on-demand services are set to launch next year. There is evidence too that Murdoch Snr is listening to his son. Many were surprised that Rupert is backing James' commitment to make BSkyB a carbon-neutral company. Advertising giant WPP has blamed a difficult UK market for slower growth, though its biggest market, North America, continues to grow steadily – but not as fast as Latin America or China. Pearson enters the top five in third place, following a confident financial performance, including the return to profit of the FT Group.

### Health & household

1	GlaxoSmithKline	69.2
2	AstraZeneca	67.0
3	Reckitt Benckiser	58.0
4	Alliance UniChem	57.8
5	Smith & Nephew	57.4

GlaxoSmithKline took pole position, pushing AstraZeneca down to second. Together, these pharma giants stand head-and-shoulders above their rivals. GSK climbed a tremendous 61 places to register fourth in the overall ranking, coming joint first for Quality of goods & services. It's set for a strong winter too – Switzerland became the first country to stockpile GSK's experimental bird flu vaccine for humans. Add to this its £303m acquisition of US consumer healthcare group CNS and the imminent production of its promising new cervical cancer drug Cervarix. AstraZeneca, meanwhile, suffered setbacks with failed developmental medicines, although new CEO David Brennan has made boosting the company's drug pipeline a priority.

### Oil, gas & extractive

1	BP	69.3
2	BHP Billiton	63.4
3	BG Group	62.8
4	Royal Dutch Shell	61.5
5	Rio Tinto	60.7

Overall, BP slips one to become Britain's third most admired company, yet it still tops its own sector. The oil group has had its fair share of failures over the past year, despite the booming oil price – including its biggest-ever pipeline leak, at Prudhoe Bay in Alaska. The group admitted making 'serious mistakes over the last 18 months', and even CEO Lord Browne conceded that the past two years have not been good. BHP Billiton climbs one sector place this year but drops overall, falling out of the top 20. The world's biggest mining group recently reported a 64% annual rise in profits after a year of strong prices. Third-placed BG Group achieved a 53% rise in pre-tax profit for its first nine months, thanks to improved gas output – and those higher prices again.

### Leisure & hotels

1	InterContinental Hotels	62.6
2	Carnival	61.9
3	First Choice	59.8
4	De Vere*	59.2
5	Center Parcs*	53.0

Turbulent times for the travel industry – high fuel prices, terror scares and a hot summer at home – yet InterContinental Hotels rode them well. The world's largest hotel company extended its reach in China and Japan and remains bullish. Carnival's shares are the worst-performing of the FTSE-100 this year – blamed on those fuel prices again. Then there was the fire on its *Star Princess* liner in March, which claimed one life and left Carnival with a bill for \$33m. But its peers praise it for financial soundness, Long-term investment value and Quality of marketing. Tour operator First Choice closed some European operations, but £153m of acquisitions and a successful long-haul focus meant it weathered 2006 in good shape.

### Property

1	Land Securities	65.5
2	Hammerson	60.9
3	British Land Co	60.4
4	Brixton	58.7
5	Quintain Estates	56.1

Land Securities, Britain's largest listed property company, rose a clear eight points on last year to take pole position – confirmation perhaps that the restructuring begun two years ago is paying off. There's more good news to come – its conversion to a real-estate investment trust at the start of 2007, which will bring tax savings to shareholders of around £75m a year. Hammerson performed well too, climbing from fifth to second. It beat expectations of its first-half results, reporting a profit rise of 56%. Third-placed British Land dropped two places. It's the end of an era for the property group, which waves goodbye to veteran chairman Sir John Ritblat (replaced by the StockExchange's Chris Gibson-Smith) and quits its Regent's Park HQ.

### Life assurance & insurance

1	Aviva	62.9
2	Legal & General Group	59.0
3	Friends Provident	56.8
4	Resolution	56.7
5	Prudential	54.8

It has been a good year for the sector, stimulated as it was by changes to the UK pension rules in April. This, combined with strong overseas growth that included the £2bn acquisition of American insurer AmerUs, helped Aviva regain first place in its sector. Aviva's solid financial performance was rewarded with 10th place in the overall ranking for Financial soundness. The only major glitch during the past year was its failed £17bn bid for Prudential. Second-placed Legal & General performed less strongly. Despite global new business growing by a third, the company has not chosen to follow the strategy of its larger peers of buying into emerging markets. It prefers to focus on the UK. Resolution, formed in 2005, enters in fourth place.

### Rest'rants, drinks, pubs & breweries

1	Diageo	64.7
2	Mitchells & Butlers	60.9
3	Greene King	59.8
4	Scottish & Newcastle	57.6
5	SABMiller	54.9

Diageo, number one in its sector and 19th most admired company overall, also achieved joint fifth for Quality of marketing. In September, the group reported an 11% hike in profits – driven largely by sales of Smirnoff and Johnnie Walker – despite the unusual drop in Guinness consumption in Ireland. Sales for the year rose from £8.97bn to £9.7bn, with a 13% growth in international business. Mitchells & Butlers' big news for 2006 was its £497m purchase of 239 Beefeater and Brewers Fayre outlets, and the rejection of a bid from property mogul Robert Tchengui. Greene King found the effects of the Scottish smoking ban not as bad as expected, and reaped the benefits of a World Cup summer. July results showed profits up 25% at £119.6m.

...2 **Stuart Rose** Marks & Spencer 15.0% 3 **Sir John Browne** BP 14.1%

## CARPHONE BOSS CHARLES DUNSTONE CAN NOW RE-FOCUS ON HIS RETAIL BUSINESS



### Retailers (food & personal)

1	Tesco	69.8
2	Marks & Spencer	65.2
3	J Sainsbury	64.9
4	Next	60.5
5	Boots*	59.6

Tesco is top again, and boss Terry Leahy is Most Admired Leader, to boot. But there are signs that the competition is fighting back. The behemoth is set to make record profits of £2.5bn for '06 by virtue of rising non-food sales and big overseas expansion. But what a year for M&S! The high street giant leapt from 124th place overall to 17th, coming sixth for Quality of goods & services (Tesco managed only a poor 33rd in this key attribute). Half-year profits for the resurgent chain jumped 32% to £405.1m, helped by an ad campaign featuring Twiggy and the dapper Bryan Ferry. J Sainsbury, too, is well on the road to recovery. The supermarket chain posted half-year pre-tax profits of £194m, discounting one-off costs – up from £87m a year ago.

### Support services

1	Serco Group	66.0
2	Capita Group	60.3
3	Bunzl	57.0
4	Rexam	55.4
5	Hays	54.3

It was a reprise for Serco, which took the sector spoils again, although it slipped from sixth to 13th overall. Successes include clinching a seven-year deal to run and maintain London's Docklands Light Railway, and heading the race for the MoD's Future Provision of Marine Services contract, worth £1bn. Capita is in fine fettle, despite the loss of founder/CEO Rod Aldridge, who stepped down after flak over a personal loan to Labour. It's on the shortlist for 21 bids, worth a total of £2.8bn, and should be kept busy by Gordon Brown's drive to cut public-sector costs. Bunzl is averaging a £150m-a-year spend on acquisitions. This year's included Canadian packaging distribution firm Morgan Scott and US safety equipment supplier United American Sales.

### Retailers (general)

1	Carphone Warehouse	69.1
2	GUS	59.3
3	DSG International	54.9
4	Kingfisher	50.8
5	Halfords	50.6

Carphone Warehouse stayed ahead in its sector, and leapt from 50th to fifth overall. Its free broadband service cost £70 to launch, but that may be eased by its £370m purchase of Time Warner's AOL UK – making it the UK's third-biggest broadband provider. CEO Charles Dunstone can now concentrate on his phone retail chain, which was rocked by the loss of Vodafone handset sales to Phones4U. GUS demerged Home Retail Group (owner of Argos and Homebase) and Experian, its credit-checking wing. Argos sales were buoyed by the World Cup, helping the group to a £3.7bn valuation; Experian's market value is £5.7bn. A year of overseas expansion for DSG (formerly Dixons), made up for sluggish performances at Currys and PC World.

### Telecommunications

1	Vodafone	63.6
=2	Virgin Mobile	61.5
=2	BT Group	61.5
4	Telecom plus	50.5
5	Eircom	46.0

Vodafone, the world's biggest mobile operator, retained top spot in a year that CEO Arun Sarin may prefer to forget (memories of boardroom infighting, shareholder revolt and an unfortunate £28bn asset overvaluation). Still, growth in developing markets helped it to a pre-tax profit of £4.8bn, one-off costs notwithstanding. It was second overall, behind Tesco, for Financial soundness. Virgin Mobile was bought by NTL in July for £962m and then got involved in the tussle with BSkyB over the future of the troubled ITV. It rose from fourth to equal second, scooping the gong for Talent management. BT is doing rather well and always tries to be a good corporate citizen, witness its top marks in Corporate and environmental responsibility.

### Software & computers

1	Northgate Informat'n Slns	53.9
2	Sage Group	49.3
3	Computacenter	48.8
4	SCi Entertainment Group	48.4
5	Autonomy	47.6

Northgate Information Solutions claimed the sector title against the odds – its HQ was destroyed in December's Buncefield oil depot explosion. The company was the focus of private-equity bid rumours for much of the year, but talks faltered. Sage was busy overseas, easing its reliance on small domestic businesses. The accounting software firm made several moves into North America, atoning for April's failed £334m bid for Nordic software group Visma. Forecasted sales for the year to end-September were £927m. Computacenter was back on track after a tough 2005. With clients like HP cutting commission and hardware manufacturers selling products direct à la Dell, the PC supplier refocused on large-scale company IT services.

### Transport

1	BAA	61.1
2	British Airways	60.6
3	easyJet	59.2
4	Stagecoach	56.3
5	National Express	54.4

A fine BMAC swansong for BAA – now sold for £10bn to Spain's Ferrovial. It pipped reigning champ British Airways. BAA's jewel, the £4.3bn Heathrow Terminal 5 project, is 80% complete, on schedule, on budget and an example of how to run ambitious construction projects. BA itself was buffeted by rising fuel costs, a £2.1bn deficit in its pension fund, the loss-making BA Connect subsidiary, an OFT investigation into fixing fuel surcharges, and August's bomb plot. Subsequent security measures cost BA £100m. Still, in the half-year to 30 September, profits rose 1.6% to £371m. Budget rival easyJet came out of the tumultuous summer with a 56% rise in annual profits, helped by passenger numbers up 11.5% and new routes.

### Speciality & other finance

1	Icap	67.4
2	Man Group	67.2
3	Close Brothers	64.3
4	3i	62.0
5	Schroders	59.5

Icap knocked Man Group off the top spot, and the £3.3bn firm was rated the sixth Most Admired overall. It has been a meteoric rise: the inter-dealer broker came 97th in 2005. City eyes will be watching to see whether the rumoured merger with the London Stock Exchange will materialise. Man's first-half sales reached a record \$10.6bn, an impressive rise from \$3.7bn last year. Iconic CEO Stanley Fink looks set to exit on a high in April. Meanwhile, Close Brothers achieved record profits of £157.3m. The investment bank sold Minova, a UK-based chemicals group, in October, making £240m, a whopping 17 times its initial investment. Its asset management, corporate finance and banking wings all beat previous records this year.

### Utilities

1	Scottish & Southern Energy	59.2
2	National Grid	54.7
3	International Power	50.6
4	United Utilities	47.5
5	Kelda	46.1

At least someone can be pleased about soaring fuel prices. Scottish & Southern Energy kept its promise not to palm price hikes off on consumers in '06; customer ranks have subsequently swollen to seven million. The downside: the pledge may cost the company £1.2bn by next April. National Grid continues its US expansion, buying gas distributor KeySpan for \$7.3bn (£3.8bn), one of the largest US acquisitions ever by a UK firm. Power station owner International Power saw pre-tax profit for the half-year to end-June rise from £192m to £350m. The Utilities crown was claimed last year by Centrica, but the owner of British Gas – which has lost customers in droves over its escalating rates – hobbled home in eighth place this time.

\*merged, acquired or name changed