

Directors' report

The directors of Boots Group PLC present their annual report to shareholders, together with the audited financial statements for the year ended 31st March 2004.

Capital reorganisation

During last year a new group holding company was interposed between The Boots Company PLC and its shareholders through a scheme of arrangement. This was effective from 20th January 2003. References throughout the annual report and financial statements to the 'company' refer to Boots Group PLC from 20th January 2003 onwards and prior to that to The Boots Company PLC. The balance sheet and balance sheet items relate to Boots Group PLC.

Principal activities

The group's principal activities during the year were:

- retailing of chemists' merchandise.
- the provision of opticians' and other healthcare services.
- the development, manufacture and marketing of healthcare and consumer products.

Further information on the group's continuing activities is provided in the operational review on pages 8 to 19.

Business review and future developments

A review of group activities during the year, research and development, and likely future developments are dealt with in the introduction, Chairman's statement, chief executive's review and operational review on pages 1 to 19.

Group results

The group profit and loss account for 2004 shown on page 46 includes the following details:

	2004 £m	Restated ¹ 2003 £m
Turnover (including share of joint ventures)	5,326.4	5,322.4
Profit on ordinary activities before exceptional items and taxation	544.6	552.9
Profit on ordinary activities before taxation	581.0	492.4

¹Restated on adoption of FR55 Application Note G on revenue recognition (see note 1(iv)).

Appropriations

The directors recommend the payment of a final dividend of 21.0p per share which, if approved by shareholders, will be paid on 13th August 2004 to shareholders registered on 11th June 2004. When added to the interim dividend of 8.8p paid on 6th February 2004, this makes a total dividend payment for the year of 29.8p per share (2003 28.6p per share). Payment of these dividends requires £226.3m (2003 £230.7m), leaving a profit of £186.3m (2003 £69.3m) retained in the business.

Group structure and operations

On 22nd May 2003, Boots announced the outsourcing of the operations of its D105 warehouse in Nottingham to Unipart and the transfer of transport services management to Tippet and Britten. The changes were effective on 1st August 2003.

On 15th January 2004, Boots announced the acceleration of its programme to reorganise its Nottingham head office.

On 29th January 2004, Boots announced the outsourcing of the operations of its D82 warehouse in Nottingham to Unipart with effect from 1st April 2004.

Share capital

Details of changes in the share capital are shown in note 22 to the financial statements.

At the annual general meeting on 24th July 2003, shareholders authorised the company to make market purchases of its own ordinary shares of 25p each.

During the year the company entered the market and purchased 38.3 million (2003 78.8 million) shares which have subsequently been cancelled. This represented 4.9% (2003 9.7%) of the shares in issue at the end of the period and the total cost was £259.9m (2003 £462.8m).

At the forthcoming annual general meeting on 22nd July 2004, shareholders will be invited to renew the company's authority to make market purchases. The authority will be limited to the purchase of not more than 76.876 million ordinary shares, being approximately 10% of the ordinary shares in issue at the date of this report; the maximum price payable to be no more than 5% above the average of the closing mid market quotations for the five business days before the purchase, with the minimum price being the nominal value, exclusive of any expenses payable by the company.

Details of shares held by Boots Qualifying Employee Share Trust, Boots All Employee Share Ownership Plan and Boots ESOP Trust are shown in note 12 to the financial statements.

Shareholders

As at 26th May 2004, the register maintained by the company under Section 211 of the Companies Act 1985 contains a notification to the company that Legal & General Investment Management holds 4.01% of the issued ordinary share capital of the company and Lazard Freres & Co holds 3.00% of the issued ordinary share capital of the company.

Fixed assets

The directors are of the opinion that the market value of the group's properties at 31st March 2004 is 44.5% higher than that stated in the financial statements. It is not anticipated that any significant taxation will become payable on the revaluation surplus, as taxation gains on properties used for the purpose of the group's trade are expected to be deferred indefinitely or eliminated by capital losses.

Payment of suppliers

The group is a signatory of the Better Payment Practice Code (a copy of the code is available from www.payontime.co.uk). It is the policy of the group to agree appropriate terms and conditions for its transactions with suppliers (by means ranging from standard written terms to individually negotiated contracts) and that payment should be made in accordance with those terms and conditions, provided that the supplier has also complied with them.

The number of days' purchases outstanding for the group's UK operations at 31st March 2004 was 24 (2003 23 days). The company has no trade creditors.

People

The group continues to involve its people in the decision-making process and communicates regularly with them during the year. Their involvement in the company's performance is encouraged with employee bonus and share schemes. The involvement extends to the board of Boots Pensions Ltd, on which there are three employee representatives as well as a retired employee. The group's aim for all its people and applicants for employment is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity, regardless of sex, religion or ethnic origin. The group does all that is practicable to meet its responsibility towards the employment and training of disabled people. Where an employee becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative.

Charitable and political donations

The group made cash donations for charitable and educational purposes in the UK for the year of £2.4m (being £0.7m for education, £0.6m for health, £1.0m for economic development and £0.1m for other charitable purposes) (2003 £3.1m) of which the company made charitable donations of £0.6m (2003 £0.1m). The company made no political payments.

Further information on community investment is shown on page 16.

Directors

Details of directors are shown on page 20. Dr J G S Buchanan, Mr J B McGrath, Mr S G Russell and Mr A P Smith were directors of the company until their resignations on 24th July 2003, 15th September 2003, 31st May 2003 and 31st October 2003 respectively.

Mme H Ploix and Dr M P Read retire by rotation at the annual general meeting in accordance with article 87 of the company's articles of association and offer themselves for reappointment.

Mr R A Baker and Mr G N Dawson, who were appointed as directors on 15th September 2003 and Mr T C Parker, who was appointed as a director on 28th January 2004, retire at the annual general meeting in accordance with article 86 and offer themselves for reappointment.

The performance of each director standing for reappointment has been formally evaluated by the Chairman, regard being had to length of service on the board of each such director and whether they be executive or non-executive, and the Chairman will recommend their reappointment. The board is mindful of the experience brought to the board by the non-executive directors who stand for re-appointment, and believes that each director standing for reappointment continues to demonstrate commitment, to be an effective member of the board, and to contribute to the balance of skills and knowledge and experience identified by the board in the course of its review carried out earlier in the year. The board is satisfied that each of the non-executive directors standing for reappointment is not precluded from devoting sufficient time to his or her duties to the company by reason of their other commitments. Details of directors' roles, responsibilities, achievements and significant external commitments are set out on page 20 and in the AGM notice, which is sent to shareholders with this report.

Information on service contracts and details of the interests of the directors and their families in the share capital of the company at 31st March 2004 are shown in the directors' remuneration report on pages 32 to 41. Copies of the service contracts of executive directors and of the appointment letters of the Chairman and non-executive directors are available for inspection at the company's registered office during normal business hours and at the annual general meeting.

No director has a directorship in common or other significant links with any other director (except in the case of executive directors holding directorships of subsidiary companies of the company).

Auditors

Resolutions to reappoint KPMG Audit Plc as auditors and to authorise the directors to determine their remuneration will be proposed at the annual general meeting.

By order of the board

M J Oliver

Secretary

26th May 2004