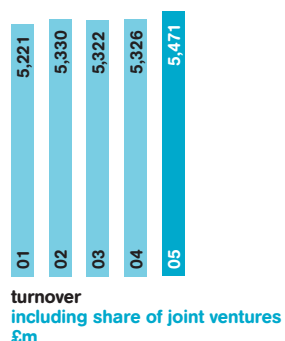
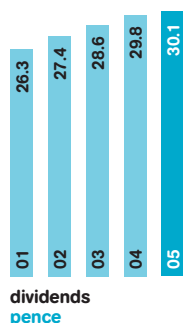


# chairman's statement

The year covered by this report has been a period of intense change for Boots. In spite of some challenging competition and a downturn in the consumer economy, I am pleased to report that much of the work we identified as necessary to make this business more modern, competitive and efficient has been successfully implemented. I can confidently say that Boots is a very different business than it was a year ago – and one much better able to deal with the challenges that it faces.



## £300m

returned to shareholders through the share buy-back programme

As I travel around and talk to our people it is clear that there is a new sense of purpose and a greater energy throughout the organisation.

Of course, change is never easy and the past 12 months have not always been straightforward. But, against a challenging background we have produced good results. We have the right strategy in place under exactly the right management team – a team which is doing a great job in a very difficult market.

### Results and shareholder return

Our results for 2004/05 show the early results of our attempts to rebase this business. We are weaning the company away from its reliance on charging ever higher prices to a declining customer base. Our strategy involves lowering prices for shoppers, offering them increased convenience and building on the trust and expertise that customers have in our products and our people. That means more focus than ever before on health and our core pharmacy business.

Boots The Chemists traded strongly for most of the year, although it was not immune from the slowdowns that hit the whole of the high street in the run up to Christmas and the New Year. In the middle of that, however, we enjoyed our third strong Christmas in a row with sales up by a further 4.2%. That gives us confidence that our underlying trading remains strong. Further evidence is provided by the growth our pharmacies achieved – with their best performance for five years. Boots Healthcare International (BHI), our over-the-counter healthcare manufacturing business,

## £501m

operating profit

produced strong results again, with all its core brands enjoying continued success.

Group sales for the year were £5.47bn, up 2.7%. Operating profit was 8.7% lower at £501m. The proposed final dividend of 21p will take the total payout to shareholders for the year to 30.1p – an increase of 1%. The results mean that there will be no bonus payments this year for almost all our management team as we have not hit our internal targets.

We have continued our share buy-back programme, carrying out £300m of repurchases through the year. This is part of a major commitment to return surplus cash to shareholders and make the balance sheet more efficient. It has already returned nearly £1.7bn over the last three years in the form of share buy-backs and dividends with further returns to come as part of the commitment to the £700m share buy-back programme made in May 2004 and the promised return of a significant proportion of the proceeds of the BHI sale.

### Corporate development

As well as working to modernise our retail business, we have tackled some strategic issues. In September we said we would exit the markets for laser eye correction, dentistry, chiropody and laser hair removal after deciding they would not make acceptable returns.

In April we announced that we planned to sell Boots Healthcare International. BHI has gone from strength to strength under Boots ownership. It is now entering the final year of a successful growth strategy which has seen profits increase significantly from

## 2.7%

increase in  
group sales



Sir Nigel Rudd  
with Ruth at  
prescriptions  
counter,  
High Street  
Kensington

£50m to nearly £90m, with a forecast of further growth this year to £100m. But it remains a relatively small player in a consolidating global market – and is more likely to gain scale under separate, more focussed, ownership. It is, as yet, early days in the process. But market conditions are good and we are committed to returning a significant proportion of the proceeds to shareholders.

At the same time, we said we intended to make the most of our property portfolio with the sale and leaseback of 300 small stores by this summer. The move is expected to raise about £250m; money that will be used to pay down short-term borrowings.

### Management change

Howard Dodd, our chief financial officer, decided that after three years with Boots it was time to look for a new challenge. I would like to offer my warm thanks to Howard and wish him well for the future. He completely modernised the finance function in Boots and was a real driving force for change across the business.

At the same time I would like to welcome Scott Wheway, who joined the executive committee in the New Year as Retail Director. Scott, who was previously with Tesco, has already started to make a difference in this key role and I know he will continue to help us drive change through the organisation.

### Managing the challenges

The scale of the work carried out in Boots over the past year has not always been visible to the outside world. But it is clear to me and the rest of the board. Steering a business through that kind of seismic

change is no mean feat. But this will be an ongoing process. No retail business can afford to sit still these days.

I have said that the last 12 months have not always been easy. And all the signs suggest that things are likely to carry on being tough. We will manage the business as tightly as ever. But Boots remains a successful and profitable business which historically has weathered the economic cycle. We have no choice but to continue taking the tough decisions needed to ensure the continued success of Boots.

### Continuing our journey

At the end of my first full year as chairman of Boots, I remain as convinced as ever that we are on the right path. The next year, however, will be full of challenges. We know that our continued determination to aim for growth while completing our modernisation programme is not going to be easy.

It will take five years to thoroughly overhaul this business and we are less than half way through the process.

Gradually, step by step, we know we are making a difference. There is no other strategy. It is just a question of waiting for the results to really show through. However, we believe that those results will become as apparent to those outside Boots as they are to us inside.

Sir Nigel Rudd