

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 2005.

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 15.

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 15.

Group results

The group profit and loss account for 2005 shown on page 46 includes the following details:

	2005 £m	Restated ¹ 2004 £m
Turnover (including share of joint ventures)	5,470.7	5,326.4
Profit on ordinary activities before exceptional items and taxation	481.3	543.5
Profit on ordinary activities before taxation	427.6	579.9

¹Restated on adoption of FRS20 'Share-based payment' and UITF38 'Accounting for ESOP trusts' (see note 21).

Appropriations

The directors recommend the payment of a final dividend of 21.0p per share which, if approved by shareholders, will be paid on 5th August 2005 to shareholders registered on 3rd June 2005. When added to the interim dividend of 9.1p paid on 21st January 2005, this makes a total dividend payment for the year of 30.1p per share (2004 29.8p per share). Payment of these dividends requires £216.6m (2004 £226.3m), leaving a profit of £85.8m (2004 £185.2m) retained in the business.

Group structure and operations

On 14th September 2004, Boots announced the exit from its Dentistry, Chiropody, Laser Eye Correction and Laser Hair Removal businesses. The Chiropody and Laser Hair Removal businesses were closed. The Laser Eye Correction and Dentistry businesses were acquired by Optical Express Ltd on 10th November and 20th January respectively.

On 7th April 2005, Boots announced its intention to sell Boots Healthcare International and return a significant proportion of the proceeds to shareholders. An active programme to sell BHI is under way.

On 7th April 2005, Boots also announced the proposed sale and leaseback of 312 of its small stores. Proceeds from the transaction will be used to pay down short term borrowings.

Share capital

Details of changes in the share capital are shown in note 23 to the financial statements.

At the annual general meeting on 22nd July 2004, 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 45.4million (2004 38.3 million) shares which have subsequently been cancelled. This represented 6.2% (2004 4.9%) of the shares in issue at the end of the period and the total cost was £300m (2004 £259.9m).

At the forthcoming annual general meeting on 21st July 2005, 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 72,200,000 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 notes 21 and 22 to the financial statements.

Shareholders

As at 18th May 2005, the register maintained by the company under Section 211 of the Companies Act 1985 contains the following notifications to the company :

Name of Shareholder	% of issued ordinary share capital held
Franklin Resources Inc	4.0525%
Legal & General Investment Management	3.76%
Lazard Freres & Co	3.00%

Fixed assets

The directors are of the opinion that the market value of the group's properties at 31st March 2005 is 64.2% 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 2005 was 20 (2004 24 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 purposes in the UK for the year of £1.65m (2004 £2.36m) being £0.23m for education, £0.05m for relief of financial hardship, and £1.37m for other charitable purposes (including health and economic development). The company made no political payments.

Further information on community investment is shown on page 16.

Directors

There were no changes to the board during the year. Howard Dodd resigned from the board on 18th May 2005.

Paul Bateman retires by rotation at the annual general meeting in accordance with article 87 of the company's articles of association and offers himself for reappointment. Jan Bennink also retires under article 87 but is not offering himself for reappointment.

The Chairman will recommend Mr Bateman's reappointment. Details of directors, their roles, responsibilities, achievements and significant external commitments are set out on page 21 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 2005 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

Michael Oliver
Secretary

18th May 2005