

Chairman's statement

Just before I took over as Chairman in September 2003, one of my first duties was to interview Richard Baker for the post of chief executive. I knew immediately that he was the right person to lead Boots into a new era. And since then, Richard has consistently proved my judgment correct – never more so than over the last year, when he and his team have shown outstanding commitment and vision in moving Boots forward, with highly encouraging results.

A year of major developments

Last year, I spoke of us being on a journey that would transform virtually every aspect of our business. So I am pleased to report that, a year on, we are clearly beginning to see the benefits of the changes we have made, as the performance of our core Health and Beauty business starts to reflect both our investment in it and our clear strategic focus.

During the year, as we progressed on this journey, two very significant developments took place: the announcement of our proposed merger with Alliance UniChem and the completion of the disposal of Boots Healthcare International (BHI).

We believe that the merger presents an outstanding opportunity for Boots to become a major international pharmacy-led Health and Beauty group. We have made no secret of our ambition to grow our Healthcare business, and to internationalise the Boots brand. By joining forces with a highly successful company that possesses strengths and strategic aims complementary to our own, we will bring the achievement of that ambition within our grasp. This truly is a merger of equals.

The disposal of BHI achieved excellent value for shareholders. Nearly three quarters of the money received has been returned to them, and the rest will be invested in the business, as described below.

With so much corporate activity, as well as very challenging market conditions, the results presented in this report are a very pleasing testament to the dedication and expertise of our management team, and all our people.

Results and shareholder return

Boots The Chemists (BTC) traded well, despite a consumer downturn compounded by rising costs and regulatory deflation in our core dispensing business.

In line with our predictions, like-for-like sales held steady, as we delivered our fourth successive record Christmas. Rising inflationary costs were cancelled out by major efficiency improvements. And gross margins were also broadly stable, thanks largely to better buying.

BHI: a successful sale

We believed BHI was a very strong business which would do better outside the group; and

our decision to sell was shown to be the right one when Reckitt Benckiser agreed to pay £1.9bn, exceeding market expectations.

We returned £1.4bn to shareholders through a special dividend; and around £100m was absorbed by the costs of the deal and tax. The remaining £400m was kept in the business; and, of this, we paid £85m into our pension fund, an important step in terms of our ability to provide for the future of our people.

The remainder is being and will be spent on a range of investment programmes both in Boots and in the enlarged group.

A profitable sale and leaseback transaction

In July 2005, we completed the sale and leaseback of 312 of our stores. These were mainly freehold High Street stores in smaller towns, and we received £298m for them, generating a profit of £150m – significantly more than we expected.

This money has enabled us to reduce our borrowings; and our decision to raise capital by this means does not in any way affect our commitment to these stores, many of which will be refurbished during 2006/07.

Building our team

The last year has been a significant one in terms of strengthening our leadership team. In October, Jim Smart was appointed chief financial officer, filling the vacancy created by the departure of Howard Dodd last year. Jim joined Boots in 2003 after 15 years in a variety of senior roles at Abbey National, since when he has proved a valuable asset to the board.

Ian Filby stepped up to the executive as Beauty and Lifestyle Director, bringing with him a huge range of experience in many frontline areas of

Sir Nigel with Sarah, the store manager of Sedley Place, Oxford Street, London.



our business acquired since he joined Boots back in 1981. Two further appointments to the executive were our new marketing director Andrew Brent and Mike Cutt who joined us as HR Director. Most recently, chief marketing officer for Burger King, Andrew is already making a major impact on the quality of our brand communications. And Mike, who joined us from Kingfisher, has made a great start on revitalising our key people programmes.

1.9%
increase in revenue from continuing operations

Among our non-executive directors, Jan Bennink stepped down from the board after four years. We thank him for his very valuable contribution.

£1.9bn
received from the sale of BHI

Corporate Social Responsibility (CSR): integral to our strategy

Another important milestone for Boots in 2005/06 was the production of our first full CSR report. Ever since the days of our founder, John Boot, and especially his son, Jesse, Boots has been a business with a strong sense of responsibility not just to our shareholders, but to everyone affected in any way by our activities. But, until recently, we have been a little reticent about reporting on our many achievements in this area. So I am very pleased that we are now gaining overdue recognition as one of the UK's most socially responsible businesses.

2 million
new Advantage Card holders recruited in the year

And I would like to make one further point on this subject, which is that for Boots, CSR is not an optional extra, but an integral part of our strategy: anything we do which strengthens the trust in which Boots is held is good for our business.

What's more, we have never been in any doubt that the benefits of doing business responsibly can be very tangible. I am thinking, for example, of the significant savings we are now beginning to enjoy as a result of our ongoing efforts to become more energy-efficient.

£85m
paid into our pension fund

A future of opportunity

Looking ahead, I feel great confidence and optimism. The merger will allow Boots The Chemists to play to its strengths, and to capitalise on those of our new partner, Alliance UniChem. Both at home and overseas, the opportunities for the new business and for the Boots brand are truly exciting.

But rest assured, we will not be deflected from our quest to build a better Boots. On the contrary, the successful sale of BHI will allow us to devote the necessary resources to tackling the remaining issues within our businesses, and to continue to raise our game. Our achievements in 2005/06 point the way forward. And I firmly believe that, provided we

continue to build on the work we have done over the last few years and to pursue our strategy, the future for Boots looks very healthy indeed.

Sir Nigel Rudd
Chairman