

# Chief executive's review

In our last two annual reviews, since I joined in September 2003, I've reported on the massive changes taking place within every area of our business, and on the progress we've made towards our goal of building a better Boots. I'm proud of what we have achieved over that period, and particularly the last 12 months.

Because in 2005/06, we have started to deliver on our promises. The medicine is working. Our strategy, which we said was the only one possible to restore Boots' fortunes, has begun to prove itself – enabling us to achieve good results, in the context of a pretty gloomy High Street. And the proposed merger we announced during the year puts us on the threshold of an exciting new era.

## Building a better performing Boots

We said it would take some time to transform our business and in 2005/06 we can report good progress, completing most of the major programmes designed to put in place the essential infrastructure of an efficient modern retailing operation.

From installing state-of-the-art tills in approximately 1,500 stores to rebuilding our entire IT and distribution systems, it would be hard to exaggerate the scale of this work. Yet we not only succeeded in avoiding any disruption to our business, we actually stepped up our performance right across the board.

Our like-for-like sales held firm compared to last year, in market conditions that saw many other major retailers suffering like-for-like declines. Our prices achieved a far more competitive

level, yet we were able to remove any impact on margins through better buying and the successful relaunch of core Boots brands such as N°7. And, more literally, we continued to build a better Boots by opening 24 new stores – including our stunning new London showcase for the very best of Boots at Sedley Place in Oxford Street.

Two factors, I'm convinced, account for everything we've achieved over the past year: our highly focused strategy and our extraordinary people. And I'd like to say a bit about both.

## Trusted health advisers to the nation

We can't yet claim that Boots is the world's best Health and Beauty retailer. But that's our goal – and we're 100% clear that we'll only achieve it by playing to our traditional strengths.

Our drive to 'put the chemist back into Boots' continued to gather pace in 2005/06, as we opened 43 new pharmacies in our stores, and dispensed over 100 million items – the first time, to our knowledge, that this milestone has ever been passed by a retailer outside North America. We are also increasingly becoming the first choice employer for newly qualified

pharmacists, with 65% of all UK pharmacy graduates applying to join us, up from 45% in the previous year.

For me, though, even more significant than the statistics was the significant part Boots played during the year in developing and expanding the role of pharmacists in promoting the good health of the nation.

Over half of our 4,000 pharmacists have now undergone further training that enables them to take on Medicine Use Reviews, an important new frontline healthcare duty.

So far, probably the best example of how an expanded pharmacy role can benefit our customers and help to meet national healthcare priorities has been provided by the successful launch of the free Chlamydia testing programme, set up with the NHS, in 200 of our London stores last year.

I must also briefly mention our Change One Thing campaign. While other retailers were scrambling to clear Christmas stock, we were helping millions of customers keep their New Year's resolutions, providing them with the expertise and encouragement needed to help them quit smoking, lose weight, and generally get themselves into shape for 2006. I'd call that the pure undiluted essence of Boots: using our expertise to make a real contribution to the health of our customers, at the same time as generating very healthy sales.

## A big year for our Beauty business

At Boots we never forget that looking and feeling good go hand in hand. So, while a lot of our focus in 2005/06 was on reinforcing our healthcare credentials, our Beauty business continued to grow at an impressive rate.

Richard with Mike and Gail, store managers at Mansfield and Burton-on-Trent.



We opened 10 new beauty halls; a fantastic environment in which to explore our enormous range of toiletries and cosmetics. Our 4,000 beauty consultants helped millions of customers feel better about their appearance, and find the products best suited to their needs. The relaunch of N°7, of which the cosmetics range is already Britain's biggest cosmetics brand by revenue, exceeded even our high expectations – with sales up by 13% in the first year after relaunch.

But it was probably the success of our N°7 skincare range that gave me the greatest pleasure. I personally asked our people to make its successful relaunch a special priority. They did, and after a phenomenal effort on their part, the range has seen a 29% year on year sales increase, which leads me neatly onto that second major reason for our excellent progress in 2005/06...

#### **Our dedicated and expert people**

When I used to work for another well known retailer, I naturally took a close interest in Boots as a major competitor. Most of its strengths, at that time, I felt we could combat, but not 'the lady in the white coat'. Boots people (male as well as female) have a great deal to offer, in terms of product knowledge, helpfulness and sheer professional expertise.

I believe that what our people offer our customers goes beyond health and beauty; these days, we're in the business of personal care. And, to deliver that, our aim must be to create the conditions and provide the support our people need to give of their best, at all times. Returning for a moment to our pharmacists – the most expert of all our expert people – our key effort over the last year has been to get them out from the backroom and into our stores, where they can spend more time advising our customers. More efficient dispensaries and

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350 new accuracy checking technicians are making this possible.

Since the shop floor is where every retailer stands or falls, I've talked mostly about our stores and the people who work in them. But, of course, they can only be as good as the people behind the scenes – from the scientists who develop our own-brand products, through the IT specialists who ensure our stores have all the information they need, to everyone involved in running our increasingly efficient supply chain. And without exception, they all played a big part in our improved performance last year.

### Good corporate citizens: from CSR to OFR

In July 2005, we produced our first full CSR report.

Our recent track record in this field is second to none in our sector, but CSR goes back to the earliest days of our business. So what was new last year was not our very wide range of CSR activities, but our recognition that we needed to organise, monitor and report on them in a more systematic manner. And by doing so, I'm pleased to say, we succeeded in winning important recognition for our many achievements in this area – most notably, for the second year running the UK's highest ranked retailer in Business in The Community Social Responsibility Index.

The document you are now reading represents the next important step towards greater openness in reporting on our business. The Operating and Financial Review (OFR) was conceived by the UK government as a means of providing shareholders of listed companies with greater disclosure than a conventional annual report – presenting a more comprehensive and balanced analysis of business performance.

**60**

midnight pharmacies to be open by the end of 2006

**65%**

of all UK pharmacy graduates applied to join Boots

**£70m**

to be spent on improving our smaller stores

**79%**

proportion of Christmas beauty gift sales that were Boots own-brand or exclusive products

Although there is no mandatory requirement to produce an OFR, we made a decision to do so. We see this as a firm commitment to a more open and accountable future which can only serve to reinforce the trust in which Boots is held.

### A merger that puts Boots on the brink of a new era

Looking ahead, as I started by saying, my strong conviction is that Boots is on the brink of an exciting new era. Of course, news of our proposed merger with Alliance UniChem took many people by surprise. But the executive team is quite certain that it represents Boots' best opportunity for growth both at home and, especially, in global markets.

Alliance UniChem is a very strong partner for Boots. Crucially, their key strengths (their wholesaling skills and, especially, their international reach) complement those of Boots (our experience of UK High Street retailing and our expertise in brand development). And by bringing these valuable assets together, we will create a major international pharmacy-led health and beauty group capable of benefiting from anticipated growth in the health and beauty market sector.

Immediately, on the day the proposed merger completes, Boots' share of the UK dispensing market will rise, taking us back to a clear number one, as we were in the time of Jesse Boot. And from there, we will be in pole position to continue strengthening our role as providers of expert healthcare to the nation, and building our brand overseas.

### Challenges and opportunities ahead

In the spirit of openness and transparency to which I've referred, I won't pretend that this

will be easy. Merging two businesses, however well they complement each other, will present some testing challenges.

But we won't take our eye off the ball. As you've read, we've made great progress over the past year towards our goal of building a better, more efficient Boots. Now, with the proceeds of our successful sale of BHI, we're in a position to consolidate our gains – with major investments now underway in further training for our people, and much needed improvements for 700 of our smaller stores and opticians practices. And my promise to shareholders this year is that we won't let anything distract us from continuing to pursue the strategy which, I believe in time, will make Boots the world's best health and beauty retailer.

Finally, the traditional – and, in this case, heartfelt – words of thanks. It's been a really good year for Boots, and each one of our 63,000 people can take a share of the credit. Thank you all very much.

Richard Baker  
Chief Executive