Chairman's statement

Last year we said Boots was in transition. Today the shape of the business we are creating is very clear. In our UK stores and our international businesses, we know what the Boots brand stands for, we know where we are taking it, and we are investing to get there.

Results Pre-tax profit rose 9.9% to £638.7m before exceptionals, on sales up 2% to £5,332.2m. Significantly, Boots The Chemists increased its share of the key health and beauty market and sales growth accelerated in the second half. In this core Boots Retail business we continued to grow our margins while maintaining customers' perceptions of value for money. And we met our target of cutting annualised costs by £250m – a year ahead of schedule.

Revitalising the business So far, so good. But we know we can still do better. In Boots Retail we are stepping-up investment in store refits. In Boots Retail International we have a new business model that will let us expand faster and reach profitability sooner. And we are investing to accelerate growth in Boots Healthcare International (BHI).

People The change in Boots is profound: it impacts on everyone, and needs everyone's wholehearted commitment. The speed and smoothness of our cultural and organisational transformation demonstrate the open-mindedness, professionalism and enthusiasm of our people at all levels. Our thanks to them all.

Planned change continues on the board. Sir Nigel Rudd was formally appointed my deputy last December. Howard Dodd joined us in April as group finance director – succeeding David Thompson, who continues as deputy chief executive until his retirement later this year. Paul Bateman, who joined Boots from Procter & Gamble last year, also joined the board in April. He retains responsibility for the all-important supply chain and for our newly-integrated support services operation.

Corporate social responsibility To be a credible leader in wellbeing, we must demonstrate a responsible approach to the wellbeing of all our stakeholders – including our people, suppliers, the communities we serve and the wider environment. Details of our action in these areas are given on pages 16 to 19.

In the UK, we are eager to play our part in the continuing evolution of the National Health Service (NHS). We welcome the plans to give pharmacists a more central role in primary healthcare – including wider powers for pharmacist prescribing and to manage repeat prescriptions – and to switch around 150 medicines from prescription to pharmacy status. With more pharmacists than any other retailer and a fast-growing position in wellbeing services, Boots is particularly well placed to help the NHS meet people's ever-rising expectations.

Dividend The proposed final dividend of 19.3p per share makes a total for the year of 27.4p – up 4.2% on last year. In March we announced plans to return £300m to shareholders through share buybacks. The company is highly cash generative, and changes during this year to the pension strategy have further strengthened the balance sheet. The buybacks will give us a more efficient capital structure, leaving us amply resourced to invest in future growth opportunities. At 31st March we had bought back £45.9m of shares.

Outlook We are increasing investment to stimulate growth, while continuing to bear down on costs: the cost reduction programmes of recent years have taught us good lessons in doing things more efficiently. The stimulus to sales should begin to kick-in later this year, as we realise the benefit of stores investment in Boots Retail and increased marketing investment in BHI. As we showed last year with Boots Opticians, when we put the right investment behind the Boots brand, both top and bottom lines respond very quickly.

In April we announced plans to demerge or sell Halfords which is now in good shape to develop independently. We are exploring both sale and demerger options to establish which will realise greater value for shareholders.

John McGrath
Chairman