

Chairman's statement



Sir Nigel Rudd

'This is my first report to you since taking over as chairman from John McGrath in September, and I'm happy to be able to open my account on a positive note. Against the background of a business undergoing major change, we ended the year with another quarter of strong sales growth, our seventh in succession. And in almost every area of our business, especially in our stores, the changes initiated by the new executive team have started to make a visible difference. Above all, though, my optimism is founded on a powerful sense of the huge potential still to be tapped within Boots. We have a fantastic business; we operate in exciting growth markets; and, from top to bottom, we have great people. Having met many of them on my travels during the year, I believe their energy, enthusiasm and expertise are the key differentiating factors that, together with continuing investment, will give us the edge going forward.'

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|----|-----|
| 00 | 567 |
| 01 | 579 |
| 02 | 624 |
| 03 | 542 |
| 04 | 550 |

*Total operating profit
before exceptional items £m

| | |
|----|------|
| 00 | 25.2 |
| 01 | 26.3 |
| 02 | 27.4 |
| 03 | 28.6 |
| 04 | 29.8 |

Dividends
pence

| | |
|----|-------|
| 00 | 5,195 |
| 01 | 5,221 |
| 02 | 5,330 |
| 03 | 5,322 |
| 04 | 5,326 |

*Turnover
including share of joint ventures £m

*Restated for FRS5 application note G (revenue recognition)

Results and shareholder returns

Our results for 2003/04 suggest that our customers are continuing to respond positively to our efforts aimed at providing them with better value and improved convenience. Boots The Chemists (BTC) traded strongly throughout the year, recording increased sales in every quarter; and, for the second successive year, our performance over Christmas was excellent, up by a further 5.1%.

By refocusing on healthcare, the traditional cornerstone of our business, we've been able to take advantage of a rapidly expanding market, with sales growth of 6.0% representing our best performance in this category for many years.

Boots Healthcare International performed very well, too, increasing comparable sales by 7.8%, an impressive level of growth that was achieved entirely organically.

Group sales for the year were £5,326.4m, up 4.7% on a continuing basis, while operating profits were £551.2m. The proposed final dividend of 21p per share makes a total for the year of 29.8p, up 4.2% on last year.

We have continued to tighten our balance sheet through our ongoing share buyback programme. During the last year, we carried out £259.9m of share repurchases and we intend to continue our programme of returning surplus capital during the coming year.

Moving the business forward

In broad terms, our strategy could hardly be simpler: we are committed to doing whatever is necessary to make Boots a more modern, competitive and efficient business. At ground level, that means making sure that our stores provide precisely what our customers are entitled to expect: an attractive and welcoming environment; a great choice of products, available when they want them; good value; and expert service of the highest quality.

Simple to state, harder to deliver. But that is the responsibility with which the board has charged Richard Baker and his executive team. It's important to stress, however, that while our expectations are very high, we're not demanding instant results and our goals are long term.

In Howard Dodd's financial review on pages 26 and 27, you will find a detailed account of our strategy for analysing and managing investment. But, very briefly, our approach to risk and return is now a highly pragmatic one. Rather than setting off in pursuit of big prizes in the far distance, we are channelling our investment into core areas of our business, where we can be confident of adding real value and achieving worthwhile returns.

Comings and goings

I feel fortunate to have begun my tenure as chairman at the same time as Richard Baker joined us as chief executive. I knew that Richard brought with him great energy and formidable retailing skills; but, all the same, I have been delighted by the impact he has already made on our business, at this very early stage in his career with Boots.

At the same time, I'd like to pay a warm tribute to my predecessor, John McGrath. His chairmanship coincided with a difficult period in the history of Boots and he played a very important part in laying the foundations for change, on which we are now building. He also worked incredibly hard, leading from the front by taking on the additional duties of chief executive, between the departure of Steve Russell in May and Richard's arrival in September.

Andy Smith resigned in October 2003. As group human resources director, Andy was a driving force for change in Boots, trusted and respected throughout the organisation.

I would also like to welcome Guy Dawson and Tim Parker who joined us as non-executive directors during the year. Both bring with them enormous experience and a proven record of business achievement, Guy as a leading investment banker, Tim (currently chief executive of Kwik-Fit) at the most senior executive level.

Corporate social responsibility

As you know, Boots is one of Britain's most trusted brands. One important reason is that we have always believed that successful businesses have obligations not just to their shareholders, but to their employees, customers, their communities and the wider world.

It's fair to say, though, that we have been slower than some of our competitors to take the credit for our achievements as good corporate citizens. So I am especially pleased to report that, over the last year, our updated corporate social responsibility programme has begun to win widespread recognition. You'll find a full account on pages 20 to 23.

Building for sustained growth

As I began by saying, I'm convinced that our business has enormous potential. We have the people; we have the products and brands that customers want; and, gradually, our investment is creating the systems and structure needed to achieve sustained growth in modern retailing.

As you've heard, it will take time. In the current year, our programme of investment in BTC will naturally have a major impact on profits. But from 2005/06 onwards, we believe that a new and highly successful chapter in the long history of Boots will begin.