

Chairman's Statement



In another very active year we took further action to enhance the company's long term profitability and capacity to create value. We invested in new retail outlets and better customer intelligence through Boots The Chemists Advantage Card. We continued the international expansion of our retail business and of Boots Healthcare International. We disposed of our loss-making home decorating chain, A G Stanley, and restored Do It All to profit. We reaped the benefits of past investment in the retail property market and shareholders received over £400 million through the special dividend paid in June 1997.

Dividend The board is proposing a final dividend of 15.6p per share, making a total for the year of 22.3p. Excluding the special dividend this represents an 8.8 per cent increase on the previous year.

Strategy Boots aims to generate strong cash flows and superior long term returns for shareholders. To do this we maintain a high level of investment in growing the core businesses and in increasing their efficiency and effectiveness. Each of the businesses contributes to our overall goal and aims to maximise the benefit of affiliation within the wider group. The strategic role of group headquarters is in portfolio strategy, seen in the disposal of non core businesses such as A G Stanley, and in seeking out new areas in which to exploit our skills, as in international retail development and the launch of health and travel insurance products.

Boots The Chemists continues to grow in the UK through its store opening programme and merchandise development and is building its position in The Republic of Ireland. Halfords is making a successful transition from high streets to edge of town sites and extending its own brand ranges. Boots Opticians continues to open additional stores, moving towards its goal of UK market leadership. Do It All is focusing on areas where it can differentiate itself more clearly from competitors. All these retail businesses are benefiting from our growing strength in developing own brand and exclusive ranges. Expansion by Boots Healthcare International overseas continues, both organically and by acquisition, and Boots Contract Manufacturing is focused on sales growth and product development in both its internal and third party business. Boots Properties applies its unique combination of financial strength and market intelligence to take timely advantage of changing conditions in the retail property market.

Within the UK we are uniquely placed to participate in initiatives to improve the nation's health because of our national coverage, resource base, organisational skills and customer traffic. Our position in healthcare provision gives us a special interest in the Government's 'Our Healthier Nation' Green Papers, which raise issues and potential opportunities for Boots The Chemists. We have been able to respond to the Government emphasising the vital role of women in family healthcare and the central part played by community pharmacy in raising awareness of health issues and encouraging healthier lifestyles.

Over the past three years the board has been working to restructure the balance sheet with share buybacks in 1994 and 1996 and a special dividend in 1997. The total amount of cash returns to shareholders in these initiatives



and through normal dividends in the past five years has totalled nearly £1.9 billion. The annual growth in total shareholder returns during that period has averaged 17.9 per cent.

The success of our strategies is demonstrated by the sustained strength of the company's performance over the past ten years. During that time, sales have grown 94 per cent and operating profits over 136 per cent; our share price has outperformed the FTSE All Share index by 44 per cent and the general retail sector by nearly 100 per cent; and our market capitalisation has more than quadrupled.

Year 2000 Our programme to ensure that our business operations are unaffected by the 'millennium bug' continues on schedule. We are confident that our own systems will be fully Year 2000 compliant by early 1999, and are working with key suppliers to ensure that their preparations are consistent with ours. We anticipate total costs of £14 million, of which £3 million was incurred during 1997/98.

Economic and Monetary Union (EMU) EMU potentially requires even greater preparation and investment by retailers than Year 2000 compliance. The contact between retail staff and the customer will present particular training needs. The introduction of the euro will affect the company whether or not the UK participates in EMU: our businesses operate in seven of the first wave countries and we expect growing use of the euro within the UK. We are taking steps to ensure that the anticipated changes will not impede the continuing development of our European businesses.

People The company's achievements are those of its staff and we congratulate them for the result they have achieved. Particular thanks are due to those who helped to restore normal operations so promptly after the fire at one of our Nottingham warehouses in October. Without their efforts, the disruption so close to the crucial Christmas period would have been very much greater.

In December we welcomed two additional non-executive directors to the board: John McGrath, chief executive of Diageo, and John Buchanan, chief financial officer and a managing director of BP. Robert Wilson is retiring as a non-executive director at the annual general meeting having served since 1991. His wise counsel has been invaluable.

Lord Blyth moves into a new role as chairman after the annual general meeting and I both congratulate him and wish him well. I am delighted to have been asked to retain an active involvement in the company as deputy chairman.

Sir Michael Angus
Chairman