



In a tough year for retailers, Boots returned a robust performance and enhanced its position internationally

In a difficult year for most UK retailers, Boots returned a robust performance and strengthened its position in international markets. We continue to explore our potential to become a world-class value creator. There is heightened creativity and energy in Boots today – with much more potential to realise in developing the core businesses.

**Results** As the UK economy slowed, the year under review proved a difficult one for the retail sector generally. Boots fared better than many and we continued to find ways to grow the business and to create value for shareholders.

Group sales from continuing businesses increased by 5.9 per cent to £4,912.4 million and profit before tax and exceptional items rose 1.3 per cent to £560.6 million. Operating cash flow was £601.9 million, a decrease of 0.6 per cent.

There were exceptional operating costs of £76.3 million and exceptional losses on the disposal of businesses totalling £318.9 million, relating to the disposal of Do It All – after recognising in the profit and loss account £312.2 million of goodwill previously written off through reserves – and this resulted in a profit after tax of £24.0 million.

**Dividend** The board is proposing a final dividend of 16.7p per share, making a total for the year of 23.8p – an increase of 6.7 per cent on the previous year.

**Business strategy and highlights** Boots aims to generate strong cash flows and superior returns for shareholders. To do this we maintain a high level of investment in all our businesses to increase their efficiency and effectiveness – and to meet changing consumer expectations. Each business contributes to our overall goal and benefits from its affiliation to the wider group.

We do not hesitate to dispose of businesses if doing so creates more value. The principal business portfolio change during the year was the disposal of the Do It All business to Focus Retail Group for £62.2 million.

Boots The Chemists (BTC) expanded to a total of 1,378 stores in the UK and the Republic of Ireland and created new opportunities in areas such as insurance, dentistry, chiropody and specialist skincare. During the year it doubled its investment in new stores, focusing on edge of town locations, but it is also developing smaller new store formats in locations from motorway service areas to hospitals and railway stations. Acquisition of the Connors chain firmly established Boots as the leading health and beauty retailer in both Northern Ireland and the Republic of Ireland.

Boots Retail International (BRI) aims to create value by exploiting the BTC brand overseas. After successful trials of Boots stores in Thailand and the Netherlands it began roll-outs in both countries with targets of 150 stores in Thailand and 50 in the Netherlands.

It also formed a joint venture with Mitsubishi to open stores in Japan and a lease on the first store in Tokyo has been signed.

Boots Opticians (BOL) increased its store portfolio by 13. Although sales growth slowed in 1998/99 the business gained market share and made further progress towards UK market leadership.

Halfords is well on the way to completing its transition from high street to edge of town sites. It continued to increase profitability by improving the product mix, extending its own brand ranges and targeting specific market opportunities, particularly in-car audio and car parts.

Boots Properties uses its expertise to give Boots UK retail businesses readier access to the locations they seek and to create value for shareholders through sound investment. After several years when conditions favoured the purchase and development of property for rental income, rising prices in 1997 provided an opportunity to realise value by property sales.

Boots Healthcare International (BHI) is expanding internationally, both organically and by acquisition, and focusing on core categories which now account for over 80 per cent of sales. It is the fastest growing of the larger over the counter (OTC) healthcare product companies in Europe. Profits grew sharply in 1998/99 while heavy investment continued.

Boots Contract Manufacturing (BCM) supports BTC, BRI and BHI in their new product development strategies while also building third-party business. Sales and profits fell back marginally in 1998/99 after growing strongly in the previous year, but restructuring will reduce costs.

**An increasingly international business** While UK trading conditions were tight, the potential of our growing international presence became clearer. As BHI moved into significant profit it acquired a range of German brands and gained distribution to the German pharmacy trade. BTC extended its presence in Ireland, and BRI advanced in Thailand and the Netherlands. New joint ventures were formed in India by BHI and in Japan by BRI and BCM's French and German businesses delivered strong sales growth.

Through BTC, BRI, BHI and BCM we are now trading in all 11 countries involved in the first wave of Economic and Monetary Union. Our planning continues in the UK but cannot be finalised until uncertainty over the question of UK entry is resolved. Many questions remain even after the publication of the National Changeover Plan with the Government's commitment to further planning during 1999.

**Year 2000** Our Year 2000 compliance programme is now virtually complete and we are confident that we have taken appropriate steps to protect our systems against the 'millennium bug'. We continue to work with suppliers to ensure that their preparations are consistent with ours and we have put contingency

plans in place. Total costs relating to this programme will be in the region of £14 million.

**People** As we explain in more detail in the following section, Boots is changing rapidly as we adopt new ways of working and accelerate the pace of business development. We continue to demand more of our people than ever and we are grateful for the way they continue to rise to the challenge.

In April this year we welcomed Barry Clare, managing director of BHI, to the board as an executive director. Barry has created significant value for the group at BHI and will make a stimulating contribution to the board's deliberations.

**Outlook** Conditions in UK retailing will remain difficult in the first half of this year, but we expect some easing towards the end of the year. We are well placed to take full advantage of improving conditions.

BTC continues to monitor developments concerning the possible removal of resale price maintenance (RPM) for OTC medicines. We remain concerned that consumers would suffer if the removal of RPM led to a significant decrease in the number of pharmacies in the UK. RPM does not apply to own brand products. Given the importance of these products in BTC's overall medicines sales, only a small proportion of total sales would be affected by price competition in the event of RPM being abolished and so the impact on profit would be limited. The matter is now under consideration in the Restrictive Practices Court, but is unlikely to be resolved until early 2001.

We remain ambitious for growth, searching energetically for opportunities to expand at home and internationally. We have the right people, planning processes and ideas to build Boots into a world-class company. We still have a long way to go. As the following pages show, we are innovating, experimenting and learning at an increasing rate.

**Lord Blyth of Rowington**  
Chairman