



John McGrath, Chairman

I am delighted to be reporting as chairman, having been a non-executive director of Boots since 1997.

I took over the chairmanship in August 2000 at an exciting time in the company's development: we are revitalising the business to confront competitive challenges and seize new opportunities. This work is already well advanced, under a strong management team. We have excellent foundations on which to build – in particular, a wealth of strong brands with enormous potential.

Results

Sales grew 0.7% to £5,226.2m. Pre-tax profit was up 1.8% to £581.1m before exceptional items.

Last year was not an easy one for retailers, and while profit performance was adequate, neither sales growth nor shareholder returns were satisfactory. We are convinced that Boots has the potential to deliver substantially more value for shareholders, and have begun a process of change that will reshape and refocus the business.

Reinventing the business

The Boots that emerges will challenge many people's preconceptions of us. It will be a less complex business integrated around the power and values of the Boots brand.

The transformation is currently under way, following the strategic principles we set out in last year's report for sustainable long term value creation. We intend to **compete from strength**, focusing on the health and beauty market where we have unrivalled authority. We will continue to **extend into new markets** where we can exploit this authority and expertise. We will make even fuller use of our skills in **creating and building brands**. And we will go on **building our presence in international health and beauty markets**, where Boots Healthcare International is now operating so successfully with world-class brands.

Boots will not only be more exciting and energetic. It will also be leaner. We are taking substantial costs out of the business. In addition to the progress we

are making in Boots The Chemists, we are still on track to meet our additional target of cutting annual costs across the group by £100m by the end of the next financial year. We aim to be innovative in reducing costs as well as in developing our stores and products. For example, we are one of the leading retailers using online auctions for procurement – making substantial savings in the past year through our membership of the Worldwide Retail Exchange.

People

During the year Sir Michael Angus and Sir Peter Reynolds retired. Group personnel director Mike Ruddell and non-executive director Sir Clive Whitmore retired on 31st March 2001. Lord Blyth retired on 31st July, having served the company with great distinction for 13 years as chief executive and, latterly as chairman. We thank them all for their valuable contributions over many years. Andy Smith has moved from Boots The Chemists to take over the group personnel role, and Hélène Ploix has joined the board as a non-executive director, bringing us additional international expertise. You will find more information about our new directors on page 23.

A word about our people. Change makes great demands on employees at all levels. I have been greatly impressed by the way they have risen to the challenge of reducing costs and accelerating the pace of change and innovation. To do this while maintaining the standards of professionalism that people expect from Boots is a real achievement. They have the board's respect, as well as its thanks.

Dividend

The proposed final dividend of 18.5p per share makes a total for the year of 26.3p – up 1.1p on last year.

Outlook

We have continued to hold our own against competition. The retail environment will not get any easier this year, but our offers to consumers are becoming increasingly distinctive and attractive. We are putting in place the organisation and the people to carry through a major transition and deliver increasing levels of shareholder value.