

28 Contents

Corporate governance	29	Notes relating to the financial statements	
Board remuneration report	32	1 Segmental information	49
Directors' responsibilities statement	38	2 Total operating profit	51
Auditors' report	39	3 Exceptional items	52
Directors' report	40	4 Acquisition and disposal of businesses	52
Group profit and loss account	42	5 Net interest	54
Statement of total recognised gains and losses	43	6 Tax on profit on ordinary activities	54
Note on historical cost profits and losses	43	7 Profit for the financial year attributable to shareholders	54
Reconciliation of movements in shareholders' funds	43	8 Dividends	54
Balance sheets	44	9 Earnings per share	55
Group cash flow information	45	10 Intangible fixed assets	55
Accounting policies	46	11 Tangible fixed assets	56
		12 Fixed asset investments	58
		13 Stocks	60
		14 Debtors	60
		15 Current asset investments and deposits	61
		16 Creditors: Amounts falling due within one year	61
		17 Creditors: Amounts falling due after more than one year	61
		18 Borrowings	62
		19 Financial instruments and derivatives	63
		20 Provisions for liabilities and charges	65
		21 Capital and reserves	66
		22 Share capital	67
		23 Detailed analysis of gross cash flows	68
		24 Analysis of net debt	68
		25 Commitments and contingent liabilities	69
		26 Pensions	69
		27 Staff numbers and costs	70
		28 Remuneration of directors and directors' shareholdings	70
		29 Related party disclosures	70
		Principal companies	71
		Group financial record	72
		Segmental financial record – continuing operations	74
		Shareholder information	75
		Index	76

29 Corporate governance

In June 1998, the Stock Exchange published a new listings rule together with related Principles of Good Governance and Code of Best Practice (the 'Combined Code') now adopted by the Financial Services Authority.

On 27th September 1999, the Institute of Chartered Accountants in England and Wales published 'Internal Control: Guidance for Directors on the Combined Code' (Turnbull guidance) to assist directors in complying with the internal control requirements of the Combined Code. Full compliance with the Turnbull guidance is expected for accounting periods ending on or after 23rd December 2000. However, to allow the necessary steps to be taken to adopt the Turnbull guidance transitional provisions apply for accounting periods ending on or after 23rd December 1999 and up to 22nd December 2000.

The board has reviewed the company's corporate governance policies and practice and fully complies with the provisions of the Combined Code except as follows:

- The board's policy is that the service contracts of executive directors appointed prior to 1st April 1999 should be subject to two years' notice of termination by the company and that directors appointed after that date should have a service contract terminable upon one year's notice by the company, such notice not to take effect until after the expiry of two years from the date of appointment of the director. The board remuneration committee is keeping the matter under review.
- The board's report to shareholders on internal controls relates primarily to financial controls, as allowed by the transitional provisions. Arrangements are well advanced to ensure full compliance with the Turnbull requirements during the next accounting period ending on 31st March 2001.

Board composition

Details of the board of directors are shown on pages 26 and 27 and in the directors' report on page 41. During the year there was a clear division of responsibilities at the head of the company, with Lord Blyth as chairman, the vice chairman Sir Michael Angus chairing the board remuneration committee and nominations committee and Mr S G Russell and Mr D A R Thompson being joint group managing directors. On 1st April 2000 Mr S G Russell became chief executive of the company. Lord Blyth remains as chairman but will retire as a director on 31st July 2000, and will be succeeded as chairman by Mr J B McGrath. Mr J B McGrath is and will remain a non-executive director. Sir Peter Reynolds is retiring as a director of the company after the annual general meeting on 27th July 2000. After these changes the board will comprise six executive directors and seven non-executive directors.

The board considers all of its non-executive directors to be independent, Sir Michael Angus being the senior independent director. Sir Michael is also the vice-chairman of the board and has agreed to seek reappointment in order to deputise when necessary for Mr J B McGrath while Mr J B McGrath remains as chief executive of Diageo, a position he will relinquish on 31st December 2000.

The company considers an independent director is one who has no relationship with any party which may undermine independence and who is not dependent on the company for his or her primary source of income or paid by the company in any capacity other than a non-executive director, was not previously a senior manager of the company and does not participate in the company's incentive bonus schemes or pension schemes.

Conduct of board meetings

The board normally has ten regular meetings in the year plus two further meetings to deal specifically with full year and half year results. Strategy meetings are convened as required. A schedule of powers reserved to the board is maintained comprising key events and decisions.

For all board meetings an agenda is established. For regular meetings this generally comprises reports from the chief executive, finance director, business managing directors and the personnel director, major items of strategic expenditure to be approved and other significant policy issues. The board is also notified of any dealings by directors and senior managers in the shares of the company. Written reports are provided to the directors in advance of the board meeting. In addition the board considers at least annually the strategic plans of the group and individual businesses and is provided with other information as requested. From time to time directors are given the opportunity to receive presentations from management about key areas of the company's operations.

Full year and interim results are reviewed by the board audit committee and approved by the board prior to publication. Other price sensitive announcements may be published under the authority of a director.

In the furtherance of their duties, the directors have full access to the services of the company secretary and may take independent professional advice, at cost to the company, subject to a limit of £25,000 and prior notification to the chairman of the audit committee.

The company has a policy of providing corporate governance training for directors on appointment, if this is their first appointment to a public limited company board.

Board committees

There are four principal board committees, all of which operate within written terms of reference. Details of the present composition and the main responsibilities of these committees are as follows:

Board nominations committee

Sir Michael Angus (chairman)
Lord Blyth of Rowington
Dr J G S Buchanan
F M Harrison
J B McGrath
Dr M P Read
Sir Peter Reynolds
Sir Nigel Rudd
Sir Clive Whitmore

The board nominations committee meets as dictated by circumstances and met five times during the year.

The main responsibility of the board nominations committee is to consider and make recommendations to the board about the appointment of directors, the standing for reappointment of directors and the structure and composition of the board generally.

30 Corporate governance

Board audit committee

Dr J G S Buchanan (chairman)
F M Harrison
J B McGrath
Dr M P Read
Sir Peter Reynolds
Sir Nigel Rudd
Sir Clive Whitmore

The board audit committee met three times during the year.

The main responsibilities of the board audit committee are:

- to review and advise the board on the interim and annual financial statements.
- to review with the external auditors the nature and scope of their audit and the results of that audit, any control issues raised by them and management's response.
- to make recommendations as to the appointment and remuneration of the external auditors and any question of their resignation or removal.
- to review the company's systems and practices for the identification and management of risk and to receive regular reports on risk assurance and audit matters.
- to monitor compliance with the company's policies to prevent illegal and questionable corporate conduct.
- to review the major findings of internal investigations.

The external auditors are appointed annually at the annual general meeting. The board audit committee considers the reappointment of the auditors and reports its findings to the board. The board audit committee periodically considers the performance, cost and independence of the external auditors, including a comparison of audit fees with those of other retail and FTSE100 companies and a review of the level of service provided by the audit team throughout the group.

The audit firm may perform non-audit work for the group but only when its tender is considered superior to that of other consultants. A schedule of this non-audit work is provided annually to the board audit committee.

Board remuneration committee

Sir Michael Angus (chairman)
Dr J G S Buchanan
F M Harrison
J B McGrath
Dr M P Read
Sir Peter Reynolds
Sir Nigel Rudd
Sir Clive Whitmore

The board remuneration committee met five times during the year.

The committee, having no members who are executive directors or who have personal financial interest in matters to be decided, is responsible to the board for determining the remuneration, terms and conditions and bonus schemes for the executive directors, having regard to performance. A report on the remuneration of directors appears on pages 32 to 37.

Board social responsibilities committee

Sir Clive Whitmore (chairman)
F M Harrison
M F Ruddell

The board social responsibilities committee met twice during the year.

The main responsibility of the board social responsibilities committee is to keep under review the company's policies and practices in the areas of social responsibility including those relating to health, safety, the environment, equal opportunities, race relations and employment of the disabled.

Investor relations

Communications with shareholders are given a high priority. A rolling programme of meetings between institutional shareholders and executive directors is held throughout the year, in addition to the annual and half year results presentations and the annual general meeting. In addition, a magazine for private investors is produced twice a year.

All members of the board usually attend the annual general meeting. A business presentation is given at the meeting, followed by a question and answer session. The notice of the meeting together with any related papers is sent to shareholders at least 20 working days before the meeting. Shareholders are given the opportunity to vote on each separate issue. Postal proxy votes will be counted and summary figures are announced after the vote on show of hands on each item.

31 Corporate governance

Internal control

The directors are responsible for the group's system of internal control. These controls are established in order to safeguard the group's assets, maintain proper accounting records and ensure that financial information used within the business or published is reliable. The directors recognise that any such system can, however, provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Combined Code requires that directors' review the effectiveness of the group's system of internal controls. This requirement extends the directors' review to cover all controls including financial, operational, compliance and risk management. To help directors define the scope of this requirement, the Turnbull guidance was issued by the Institute of Chartered Accountants in England and Wales in September 1999.

The board fully supports the Turnbull guidance, and has reviewed its arrangements for risk management and internal control. A new approach to risk management has been approved and risk managers established in each business to support and act as focal points for monitoring the management action to mitigate business risk. Consequently a group risk assurance and audit function has been set up to provide assurance to the board that risk management practices, which are closely aligned to our business objectives, address the key risks faced by the company.

For the financial year ended 31st March 2000, the board has satisfied itself that there was in place an ongoing process for identifying, evaluating and managing significant risks throughout the group. Further the board has reviewed the effectiveness of the system of internal financial control in relation to the criteria described in 'Internal Control and Financial Reporting' issued by the Working Group on Internal Controls in December 1994.

The company has an established framework of internal financial controls, the key elements of which are as follows:

- Members of the board have responsibility for monitoring the conduct and operations of individual businesses within the group. This includes the review and approval of business strategies and plans and the setting of key business performance targets. The group has a formal and comprehensive process for the determination of business strategies and this process is co-ordinated and monitored by group headquarters. The executive management responsible for each business are accountable for the conduct and performance of their business within the agreed strategies.
- Business plans provide a framework from which performance commitments have been agreed between group headquarters and each business. These commitments incorporate financial and strategic targets against which business performance is monitored. This monitoring includes the examination of and changes to rolling annual and half year forecasts and monthly measurement of actual achievement against key performance targets and plans. These results are consolidated, appraised and communicated to the board.
- The company has clear requirements for the approval and control of expenditure. Strategic investment decisions involving both capital and revenue expenditure are subject to formal detailed appraisal and review according to approval levels set by the board. Significant expenditure of this nature requires approval by a director or the board. Performance reviews are undertaken by the businesses on completion of significant investments. Operating expenditure is controlled within each business with approval levels for such expenditure being determined by the individual businesses.
- There are clear procedures for monitoring the system of internal financial control. The board audit committee meets three times a year and its responsibilities are outlined on page 30. It receives reports from the group risk assurance and audit function on the results of work carried out under an annual risk focused audit plan and from the external auditors. It also requests the attendance of business management, as required, to report on controls relating to specific business activity.

Group risk assurance and audit has facilitated the annual process whereby businesses provide certified statements of compliance with internal financial controls, which are supported by summaries of key control activities and an assessment of significant business risks, controls and resulting exposures.

Going concern

Having considered group cash flow forecasts and strategic plans, the directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

32 Board remuneration report

This report has been prepared in compliance with Schedule B of the Combined Code annexed to the Listing Rules of the Financial Services Authority.

Remuneration policies

In determining remuneration policies, the board has followed the provisions set out in Schedule A of the Combined Code. It is the practice of the board to maintain contact where appropriate with its major shareholders about remuneration issues. Remuneration policies for the executive directors and the senior management team are aligned with the board's governing objective, which is to maximise the value of the company for the benefit of shareholders in terms of total shareholder return represented by share price movement and the value of dividends as if reinvested when paid. Executive bonuses are seen as a means of reinforcing this objective and rewarding executives for their achievement. Responsibilities of the remuneration committee and its membership are set out in the corporate governance statement on page 30.

Remuneration policies are based on the following foundations:

Pay levels Executive directors' salaries and non-executive directors' fees are positioned at competitive levels in the light of independent assessment of market practices. Bonus schemes provide an opportunity for executives to receive additional rewards if, and only if, business performance reaches specified objectives and targets.

Link with business strategy The way that performance is measured for executive directors flows from, and is consistent with, business strategy and therefore a significant element of an executive director's bonus is tied to generating long term returns for shareholders which compare well with those of other leading companies.

The role of equity Share ownership provides an effective way to align the interests of shareholders and executives. Therefore, half of an executive director's long term bonus is payable in shares of the company. The practice of granting executive share options ceased in 1995.

Directors' remuneration

Analysis of emoluments, long term bonuses and gains on share options are shown on pages 33 to 36. Details of shareholdings and outstanding share options are shown on page 36 and pension entitlements on page 37.

33 Board remuneration report

Components of emoluments

Salaries and fees Salaries of executive directors reflect the scope of, and changes in, their responsibilities and are reviewed annually by the remuneration committee with reference to external comparisons. The board sets the level of remuneration of the non-executive directors by reference to practice in other leading companies.

Short term executive bonus scheme This scheme rewards executive directors for achieving operating efficiencies and profitable growth in the relevant year by reference to challenging but achievable forecasts derived at the beginning of the year from strategic plans.

During 1999/00, the performance criterion was profit after tax. A bonus of 10% of base salary was payable for performance at 95% of profit after tax target rising to 25% of salary for performance at target level and to a maximum of 50% when profit after tax was 110% of target. Performance against target during the year was such that a bonus equal to 19% was earned by executive directors.

Short term profit related bonus schemes Profit related bonus schemes cover various groups of staff, including executive directors. These schemes are based on performance against either group, or business unit, profit target as appropriate and there is a maximum payment of £6,000 to any individual.

Other benefits Staff, including executive directors, who have completed ten years' service are entitled to a long service payment. This is based upon the level of salary and the number of years' service, up to a maximum of £4,000 per annum. Payments under this scheme are being reduced gradually and will cease in the year 2001. Executive directors receive other benefits, including a company car, sick pay and holidays, which overall provide a reasonably competitive package comparable with that provided by other major companies.

Analysis of individual directors' emoluments £000	Salaries and fees	Short term bonuses	Other benefits	Total 2000	Total 1999
Sir Michael Angus (deputy chairman)	95	–	–	95	113
Lord Blyth (chairman and highest paid director)	630	125	17	772	632
Dr J G S Buchanan	30	–	–	30	27
B Clare (from 1st April 1999)	215	47	13	275	–
Sir Peter Davis (retired on 21st January 2000)	24	–	–	24	27
F M Harrison	30	–	–	30	27
J B McGrath	30	–	–	30	27
Dr M P Read (from 23rd September 1999)	16	–	–	16	–
Sir Peter Reynolds	30	–	–	30	27
Sir Nigel Rudd (from 15th December 1999)	9	–	–	9	–
M F Ruddell	275	58	15	348	276
S G Russell	375	71	16	462	368
D A R Thompson	375	77	17	469	374
J J H Watson	220	48	14	282	228
Sir Clive Whitmore	30	–	–	30	27
R P Wilson (retired on 23rd July 1998)	–	–	–	–	8
	2,384	426	92	2,902	2,161

34 Board remuneration report

Long term bonus schemes The schemes provide a direct link between the pay of executive directors and the creation of value for shareholders. Company performance is measured over rolling four year cycles, in terms of total shareholder return (TSR) relative to a peer group of ten other leading companies.

During the cycle ended 31st March 2000 the chosen peer group was:

Great Universal Stores	Sears
Kingfisher	Smith & Nephew
Marks & Spencer	SmithKline Beecham
Reckitt Benckiser	Tesco
J Sainsbury	W H Smith

The peer group is reviewed before each performance cycle to maintain its relevance.

For the four year cycle which ended on 31st March 2000 the amount of bonus depended upon the company's comparative performance against its peer group on the following scale:

Comparative position in peer group league table	1	2	3	4	5	6	7	8	9	10	11
Bonus % of average annual salary	90	90	90	65	55	45	35	25	Nil	Nil	Nil

For the cycles which commenced in April 1997 and April 1998 there will be nil bonus if the position in the above league table is eighth or lower.

For the above scheme, one half of any bonus earned is paid in cash after the end of each performance cycle. The value of the remaining half is converted into an equivalent number of shares in the company in respect of which the executive director will have conditional rights. The number of shares is calculated by dividing half of the value of the long term bonus by the quotation for a share as derived from the Daily Official List of the London Stock Exchange on the date for payment of the cash proportion (in 2000, being 20th June).

For the four year cycles that commenced on or after April 1999 a new scheme has been approved. A maximum potential bonus award (MPBA) is calculated for executive directors by multiplying the basic annual salary at the beginning of the cycle by a factor of 125%. The MPBA is then expressed in share units using the average share price over the previous three months. At the end of the performance cycle a percentage of the MPBA is gained based on the TSR performance against a peer group of ten other leading companies. The scale applied is:

Comparative position in peer group league table	1	2	3	4	5	6	7	8	9	10	11
% of MPBA gained	100	80	64	48	36	24	Nil	Nil	Nil	Nil	Nil

The value of the award is based on share price movement over the four years. For this new scheme, one half of the award is paid in cash after the end of each performance cycle and one half in shares. The value of the cash bonus is calculated by multiplying one half of the number of earned share units by the average share price over the last three months of the performance cycle, as derived from the Daily Official List of the London Stock Exchange.

For the above schemes the executive director will normally become entitled to receive shares only after remaining employed for a further three years (two years for the new scheme commencing April 1999). If a director leaves the company during this period, except in the case of retirement, disability or death, his conditional entitlement to those shares will lapse.

35 Board remuneration report

In respect of the four year period to 31st March 2000, the company achieved position five in the league table referred to on page 34. Accordingly the long term bonus amounts earned in respect of that period by executive directors, including amounts relating to periods of service before appointment to the board, were as follows:

£000	Cash	Value of vested shares	Total 2000	Total 1999
Lord Blyth	155	–	155	170
B Clare	38	–	38	–
M F Ruddell	68	–	68	74
S G Russell	87	–	87	87
D A R Thompson	88	–	88	93
J J H Watson	51	–	51	49
	487	–	487	473

Each executive director will also be awarded conditional rights to receive ordinary shares in the company having a market value on 20th June 2000 equivalent to the cash bonus shown above. The director will normally become entitled to receive those shares in June 2003 if the conditions are satisfied. There were no shares that vested during the year.

Details of the numbers of shares which have been conditionally awarded during the year under the long term bonus scheme for the cycle which was completed at the end of the previous financial year and the cumulative conditional entitlement are shown below:

	Conditional entitlement 2000	Conditional entitlement 1999	Conditional entitlement 1998	Cumulative total
Lord Blyth	21,992	15,956	22,263	60,211
B Clare	4,621	3,221	4,190	12,032*
M F Ruddell	9,552	6,991	9,525	26,068
S G Russell	11,200	7,652	9,570	28,422
D A R Thompson	12,072	8,538	11,475	32,085
J J H Watson	6,377	4,242	4,876	15,495
	65,814	46,600	61,899	174,313

*B Clare's cumulative entitlement accrued before he was appointed to the board on 1st April 1999.

36 Board remuneration report

Gains on share options

Details of SAYE share options are shown below. Gains on share options represent the number of shares under options which have been exercised, valued at the difference between the market price at the date of exercise and the exercise price paid.

Details of gains on share options exercised during the year are as follows:

	Exercise price	Number of shares	Market price at date of exercise	Gain 2000 £000	Gain 1999 £000
Lord Blyth				–	13
S G Russell	421p	4,097	726p	12	–
Total				12	13

Directors' shareholdings and share options

The beneficial interests of the directors in office at 31st March 2000 and their families in the share capital of the company at 31st March 2000 are shown below. The company's register of directors' interests, which is open to inspection, contains full details of directors' interests in the company's shares.

Shareholdings

	Ordinary shares 2000	Ordinary shares 1999
Sir Michael Angus	3,673	3,348
Lord Blyth	302,906	292,338
Dr J G S Buchanan	2,000	1,000
B Clare	5,658	5,658*
F M Harrison	3,061	3,061
J B McGrath	2,611	2,519
Dr M P Read	3,500	–*
Sir Peter Reynolds	3,609	3,609
Sir Nigel Rudd	2,000	–*
M F Ruddell	56,571	52,382
S G Russell	50,551	46,434
D A R Thompson	79,177	79,123
J J H Watson	52,393	52,393
Sir Clive Whitmore	1,592	1,592

*at date of appointment

In addition, Sir Peter Reynolds has a non-beneficial interest in 1,300 (1999 1,300) ordinary shares. Each executive director was also deemed, as a potential beneficiary, to have an interest in the 2,402,413 ordinary shares of the company held by Boots ESOP Trust Ltd, on behalf of Boots Employee Trust, established to facilitate the operation of the company's executive bonus schemes and 20,119,540 ordinary shares of the company held by Boots (QUEST) Trustee Limited, on behalf of Boots Qualifying Employee Share Trust, established in connection with the company's UK all-employee SAYE Share Option Scheme. No director holds any loan capital. The personal shareholdings of directors in office at 31st March 2000 remain unchanged on 31st May 2000, but the number of shares held by Boots (QUEST) Trustee Limited has reduced, thereby reducing directors' deemed interest.

Share options

An analysis of the number of outstanding directors' share options at each exercise price is as follows:

Under SAYE scheme	410p	485p	588p	808p	624p	2000 Total	1999 Total
Lord Blyth	841	–	–	853	–	1,694	1,694
B Clare	–	3,216	–	–	–	3,216	3,216*
M F Ruddell	841	–	663	482	–	1,986	1,986
S G Russell	–	–	–	–	2,704	2,704	4,097
D A R Thompson	–	1,422	1,760	–	–	3,182	3,182
J J H Watson	–	3,556	–	–	–	3,556	3,556

*at date of appointment

During the year Mr S G Russell exercised SAYE options in respect of 4,097 shares and SAYE options on a further 2,704 shares were granted to him.

No executive options are held by directors.

Information on the company's SAYE share option scheme, including dates from when options are exercisable and expiry dates, is shown in note 22. The market price of the company's shares at 31st March 2000 was 537p and the range of market prices during the year was 457p to 884p.

Directors' interests in share options on 31st May 2000 remain unchanged.

37 Board remuneration report

Pension entitlement

All executive directors in office at 31st March 2000 receive pension entitlements from the company's principal UK defined benefit pension scheme, referred to in note 26, and supplementary pension arrangements which provide additional benefits aimed at producing a pension of two-thirds final base salary at normal retirement age. Non-executive directors are not members of the pension scheme. There are no money purchase schemes. Pension entitlement is calculated only on the salary element of remuneration. The chairman is entitled to the same level of pension benefits enjoyed by other executive directors despite his shorter service but after adjusting for pensions arising from earlier employment.

Details of pensions earned by the executive directors in office at 31st March 2000 are shown below:

	Age at 31st March 2000	Directors' contributions during the year £000	Increase in accrued pension entitlement during the year £000	Total accrued pension entitlement at 31st March 2000 £000
Lord Blyth (chairman and highest paid director)	59	30	54	387
B Clare	47	10	14	57
M F Ruddell	56	13	15	164
S G Russell	55	18	19	213
D A R Thompson	57	18	21	231
J J H Watson	58	10	10	140

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. No account is taken of any retained benefits from previous employments which will act to reduce the benefits shown. The increase in accrued pension during the year is after deducting the increase due to inflation on the previous year's accrued pension. Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.

The normal retirement age is 60. Early retirement is available subject to Trustee consent and a reduction in the accrued pension. Under the current early retirement terms the pension can be drawn from age 59 without reduction.

On death after retirement spouses' pensions of two-thirds of members' pensions and children's pensions of two-ninths of members' pensions for up to three dependent children are payable (subject to Inland Revenue limits).

Pensions in payment are guaranteed to be increased annually by 5% or the increase in the Index of Retail Prices (RPI) if less. Additional increases may be granted at the discretion of the Trustees and subject to the consent of the company.

Any transfer value calculations would make allowance for discretionary benefits including pension increases and early retirement.

Contracts of service

Lord Blyth will retire as a director on 31st July 2000. Mr J B McGrath will succeed him as chairman.

The current chairman has a fixed term service contract with the company which expired at normal retirement age, 60, on 8th May 2000. None of the non-executive directors has a service contract, including Sir Michael Angus, Mr J B McGrath, Dr M P Read and Sir Nigel Rudd, who are standing for reappointment as directors at the annual general meeting.

Mr B Clare's service contract is terminable by the company on one year's notice. Mr K S Piggott who was appointed on 1st April 2000 also has a service contract which is terminable by the company on one year's notice, such notice not to take effect until after the expiry of two years from the date of his appointment. Each of the other executive directors has a service contract which is terminable by the company on two years' notice. Mr J J H Watson and Mr K S Piggott are standing for reappointment at the annual general meeting. All such contracts terminate when the director in question reaches the age of 60. The remuneration committee considers that it is appropriate for executive directors who were appointed prior to 1st April 1999 to have a service contract providing for two years' notice having regard to their seniority and value to the company and the generally prevailing practice among comparable companies. If any service contract were to be terminated by the company giving less than the contractual period of notice, the requirement for the director to mitigate his loss would be taken into account in determining any resulting compensation.

It is recognised that directors may be invited to become non-executive directors of other companies and that the additional experience and knowledge that this brings will benefit the company. Accordingly, the policy is to allow executive directors to accept up to two such appointments where no conflict of interest arises, and to retain the fees received.

38 Directors' responsibilities statement

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the profit or loss for the financial year and of the state of affairs of the company and the group at the end of that period. The directors are of the opinion that suitable accounting policies have been used and applied consistently, applicable accounting standards have been followed, and reasonable and prudent judgements and estimates have been made. The financial statements have been prepared on a going concern basis. The directors have a responsibility to ensure that the company and its subsidiaries have suitable internal controls for maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibilities for taking such steps that are reasonably open to them for safeguarding the assets of the group, and for preventing and detecting fraud and other irregularities.

39 Auditors' report

Report of the Auditors to the members of The Boots Company PLC

We have audited the financial statements on pages 42 to 71.

Respective responsibilities of directors and auditors The directors are responsible for preparing the Annual Report. As described on page 38, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanation we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on pages 29 to 31 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31st March 2000 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants

Registered Auditor

Birmingham

31st May 2000

40 Directors' report

The directors of The Boots Company PLC present their annual report to shareholders, together with the audited financial statements for the year ended 31st March 2000.

Principal activities

The group's principal activities during the year were:

- retailing of chemists' merchandise and autoparts.
- the provision of opticians' services.
- the development, manufacture and marketing of healthcare and consumer products.
- property investment, development and management.

Further information on the group's continuing activities is provided on page 1.

Business review and future developments

A review of group activities during the year, research and development, and likely future developments are dealt with in the chairman's statement, strategic overview, chief executive's statement and operational review on pages 3 to 21.

Group results

The group profit and loss account for 2000 shown on page 42 includes the following details:

	2000 £m	1999 £m
Turnover	5,189.4	5,044.6
Profit on ordinary activities before exceptional items and taxation	570.8	560.6
Profit on ordinary activities before taxation	561.7	170.3

Appropriations

The directors recommend the payment of a final dividend of 17.7p per share which, if approved by shareholders, will be paid on 18th August 2000 to shareholders registered on 16th June 2000. When added to the interim dividend of 7.5p paid on 5th February 2000, this makes a total dividend payment for the year of 25.2p per share (1999 23.8p per share). Payment of these dividends requires £221.7m (1999 £214.5m), leaving a profit of £177.3m (1999 loss £190.6m) retained in the business.

Group structure

On 15th September 1999, it was announced that the group was setting up a 50/50 joint venture with Hollinger Telegraph New Media to create handbag.com, the first major UK internet service designed exclusively for British women.

Share capital

Details of changes in the share capital are shown in note 22 to the financial statements on page 67.

At the annual general meeting on 22nd July 1999, shareholders authorised the company to make market purchases of its own ordinary shares of 25p each.

In the period September 1999 to February 2000, the company entered the market and purchased 16.0 million shares which have subsequently been cancelled. This represented 1.8% of the shares in issue at the end of the period and the total cost was £95.4m.

At the forthcoming annual general meeting on 27th July 2000, shareholders will be invited to renew the company's authority to make market purchases. The authority will be limited to the purchase of not more than 89.9 million ordinary shares, being approximately 10% of the ordinary shares in issue at the date of this report; the maximum price payable to be 105% of the average of the closing mid market quotations for the five business days before the purchase, with the minimum price being the nominal value, exclusive of any expenses payable by the company.

Details of shares purchased by Boots Qualifying Employee Share Trust and Boots ESOP Trust are shown in note 12.

Shareholders

As at 31st May 2000 the register maintained by the company under Section 211 of the Companies Act 1985 contains a notification to the company that the Prudential Corporation group of companies holds 4.06% of the issued ordinary share capital of the company.

41 Directors' report

Fixed assets

The directors are of the opinion that the market value of the group's properties at 31st March 2000 is 11% higher than that stated in the financial statements.

Payment of suppliers

The group is a signatory of the Confederation of British Industry's Prompt Payment Code. It is the policy of the company to agree appropriate terms and conditions for its transactions with suppliers (by means ranging from standard written terms to individually negotiated contracts) and that payment should be made in accordance with those terms and conditions, provided that the supplier has also complied with them.

The number of days' company purchases outstanding at 31st March 2000 was 25 (1999 27).

Staff

The company continues to involve staff in the decision-making process and communicates regularly with them during the year. Their involvement in the company's performance is encouraged with employee bonus and share schemes. The involvement extends to the board of Boots Pensions Ltd, on which there are three employee representatives as well as a retired employee. The company's aim for all members of staff and applicants for employment is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity, regardless of sex, religion or ethnic origin. The company does all that is practicable to meet its responsibility towards the employment and training of disabled people. Where an employee becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative.

Charitable and political donations

Donations for charitable and educational purposes in the UK for the year were £2.8m (1999 £2.9m). There were no political payments. Further information on community relations is shown on page 20.

Directors

Details of directors in office on 31st March 2000 are shown on pages 26 and 27. Sir Peter Davis was a director until his retirement from the board on 21st January 2000.

Sir Michael Angus, Mr J B McGrath and Mr J J H Watson retire by rotation at the annual general meeting in accordance with Article 87 and offer themselves for reappointment.

Dr M P Read, Sir Nigel Rudd and Mr K S Piggott who were appointed as directors on 23rd September 1999, 15th December 1999 and 1st April 2000 respectively retire at the annual general meeting in accordance with Article 86 and offer themselves for reappointment.

Information on service contracts and details of the interests of the directors and their families in the share capital of the company at 31st March 2000 are shown in the board remuneration report on pages 32 to 37.

Sir Peter Reynolds is retiring as a director of the company after the annual general meeting on 27th July 2000 and Lord Blyth will retire as a director on 31st July 2000.

Auditors

A resolution to reappoint KPMG Audit Plc as auditors and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the board
31st May 2000

M J Oliver
Secretary

42 Group profit and loss account

For the year ended 31st March 2000	Notes	Before exceptional items 2000 £m	Exceptional items (note 3) 2000 £m	Total 2000 £m	Before exceptional items 1999 £m	Exceptional items (note 3) 1999 £m	Total 1999 £m
Turnover							
Turnover from continuing operations	1	5,189.4	–	5,189.4	4,912.4	–	4,912.4
Discontinued operation		–	–	–	132.2	–	132.2
Turnover: group and share of joint ventures	1	5,189.4	–	5,189.4	5,044.6	–	5,044.6
Less: share of joint ventures' turnover		(2.4)	–	(2.4)	–	–	–
Group turnover		5,187.0	–	5,187.0	5,044.6	–	5,044.6
Operating profit							
Operating profit from continuing operations		573.3	(22.0)	551.3	561.4	(76.3)	485.1
Discontinued operation		–	–	–	2.7	–	2.7
Group operating profit		573.3	(22.0)	551.3	564.1	(76.3)	487.8
Share of operating loss of joint ventures		(8.4)	–	(8.4)	(1.7)	–	(1.7)
Total operating profit including joint ventures	1,2	564.9	(22.0)	542.9	562.4	(76.3)	486.1
Profit on disposal of fixed assets							
Continuing operations	3	–	12.9	12.9	–	4.6	4.6
Discontinued operation		–	–	–	–	0.3	0.3
Loss on disposal of business	4	–	–	–	–	(318.9)	(318.9)
Profit on ordinary activities before interest							
Net interest	5	564.9	(9.1)	555.8	562.4	(390.3)	172.1
		5.9	–	5.9	(1.8)	–	(1.8)
Profit on ordinary activities before taxation							
Tax on profit on ordinary activities	6	570.8	(9.1)	561.7	560.6	(390.3)	170.3
		(168.8)	6.3	(162.5)	(169.9)	23.6	(146.3)
Profit on ordinary activities after taxation							
Equity minority interests		402.0	(2.8)	399.2	390.7	(366.7)	24.0
		(0.2)	–	(0.2)	(0.1)	–	(0.1)
Profit for the financial year attributable to shareholders							
Dividends	7 8	401.8	(2.8)	399.0	390.6	(366.7)	23.9
				(221.7)			(214.5)
Profit/(loss) retained				177.3	(190.6)		
Basic earnings per share							
	9	45.4p	(0.4)p	45.0p	42.9p	(40.3)p	2.6p
Diluted earnings per share							
	9	45.1p	(0.3)p	44.8p	42.5p	(39.9)p	2.6p

43 Other primary statements of the group

Statement of total recognised gains and losses

For the year ended 31st March 2000

	2000 £m	1999 £m
Profit for the financial year attributable to shareholders	399.0	23.9
Deficit on revaluation of properties	(3.3)	(1.4)
Impairment losses on revalued assets	(1.1)	(1.7)
Currency translation differences on foreign currency net investments	(6.6)	3.0
Other gains and losses	–	0.4
Total recognised gains and losses for the year	388.0	24.2

Currency translation differences include tax of £(0.4)m (1999 £(0.1)m).

Note on historical cost profits and losses

For the year ended 31st March 2000

	2000 £m	1999 £m
Reported profit on ordinary activities before taxation	561.7	170.3
Realisation of property revaluation surpluses	4.9	7.2
Difference between historical cost depreciation charge and actual charge for the year calculated on revalued amounts	0.5	1.3
Historical cost profit on ordinary activities before taxation	567.1	178.8
Historical cost profit/(loss) retained	182.7	(182.1)

Reconciliation of movements in shareholders' funds

For the year ended 31st March 2000

	2000 £m	1999 £m
Total recognised gains and losses for the year	388.0	24.2
Dividends	(221.7)	(214.5)
New share capital issued (net of expenses)	0.5	8.8
Repurchase of shares	(95.4)	–
Goodwill relating to acquisitions prior to 1st April 1998	–	(1.4)
Goodwill released on disposal of businesses	–	312.2
Net increase in shareholders' funds	71.4	129.3
Opening shareholders' funds	1,780.2	1,650.9
Closing shareholders' funds	1,851.6	1,780.2

44 Balance sheets

31st March 2000	Notes	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Fixed assets					
Intangible assets	10	62.3	64.4	2.2	2.8
Tangible assets	11	1,799.0	1,788.6	609.9	620.9
Investment in joint ventures – share of gross assets		9.2	7.1		
– share of gross liabilities		(1.2)	(0.9)		
	12	8.0	6.2	14.8	6.5
Other investments	12	133.2	106.2	1,768.5	1,717.4
		2,002.5	1,965.4	2,395.4	2,347.6
Current assets					
Stocks	13	689.5	722.0	198.2	200.1
Debtors falling due within one year	14	404.5	388.1	229.8	363.7
Debtors falling due after more than one year	14	4.0	14.1	409.4	273.2
Current asset investments and deposits	15	379.2	105.8	357.9	77.3
Cash at bank and in hand		43.0	32.2	48.1	10.6
		1,520.2	1,262.2	1,243.4	924.9
Creditors: Amounts falling due within one year	16	(1,153.2)	(1,191.0)	(1,360.7)	(985.9)
Net current assets		367.0	71.2	(117.3)	(61.0)
Total assets less current liabilities		2,369.5	2,036.6	2,278.1	2,286.6
Creditors: Amounts falling due after more than one year	17	(489.2)	(230.7)	(767.5)	(513.6)
Provisions for liabilities and charges	20	(26.8)	(25.3)	–	(4.8)
Net assets		1,853.5	1,780.6	1,510.6	1,768.2
Capital and reserves					
Called up share capital	21, 22	224.8	228.8	224.8	228.8
Share premium account	21	252.5	252.0	252.5	252.0
Revaluation reserve	21	266.9	276.2	–	–
Capital redemption reserve	21	40.8	36.8	40.8	36.8
Profit and loss account	21	1,066.6	986.4	992.5	1,250.6
Equity shareholders' funds		1,851.6	1,780.2	1,510.6	1,768.2
Equity minority interests		0.5	0.4	–	–
Non-equity minority interests		1.4	–	–	–
		1,853.5	1,780.6	1,510.6	1,768.2

The financial statements were approved by the board of directors on 31st May 2000 and are signed on its behalf by:

Lord Blyth of Rowington

Chairman

David Thompson

Deputy Chief Executive and Finance Director

45 Group cash flow information

Reconciliation of operating profit to operating cash flows

For the year ended 31st March 2000	Notes	2000 £m	1999 £m
Group operating profit before exceptional items		573.3	564.1
Depreciation, amortisation and impairments of fixed assets		154.4	140.1
Permanent diminution – QUEST		9.8	–
Loss on disposal of fixed assets, excluding properties		9.6	6.8
Decrease/(increase) in stocks, including property development stock		30.4	(78.3)
Increase in debtors		(8.3)	(55.3)
Increase in creditors		4.8	39.6
Other non-cash movements		(1.0)	(0.6)
Net cash inflow before expenditure relating to exceptional items		773.0	616.4
Exceptional operating cash flows	23	(19.3)	(14.5)
Cash inflow from operating activities		753.7	601.9

The cash inflow from operating activities includes £Nil (1999 inflow £0.4m) relating to discontinued operation.

Group cash flow statement

For the year ended 31st March 2000	Notes	2000 £m	1999 £m
Cash inflow from operating activities		753.7	601.9
Returns on investment and servicing of finance	23	(9.8)	(24.9)
Taxation		(154.4)	(112.4)
Capital expenditure and financial investment	23	(221.0)	(458.5)
Acquisitions and disposals	4	(2.6)	55.2
Equity dividends paid		(216.3)	(207.1)
Cash inflow/(outflow) before use of liquid resources and financing		149.6	(145.8)
Management of liquid resources	23	(283.6)	122.8
Financing	23	172.8	28.2
Increase in cash		38.8	5.2

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

Reconciliation of net cash flow to movement in net debt

For the year ended 31st March 2000	Notes	2000 £m	1999 £m
Increase in cash		38.8	5.2
Cash outflow/(inflow) from change in liquid resources	24	283.6	(122.8)
Cash inflow from change in borrowings and lease financing	24	(267.7)	(19.4)
Movement in net debt resulting from cash flows		54.7	(137.0)
Loan notes issued as settlement for acquisition		–	(16.8)
Finance lease additions		(4.1)	(6.7)
Increase in value of investment in 10.125% bond 2017		18.2	16.5
Currency and other non-cash adjustments		(11.6)	(1.4)
Movement in net debt during the year		57.2	(145.4)
Opening net debt		(294.8)	(149.4)
Closing net debt	24	(237.6)	(294.8)

Net debt comprises cash, liquid resources, finance leases and all other borrowings.

46 Accounting policies

The following accounting policies have been used in dealing with items which are considered material in relation to the group and parent company financial statements.

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under alternative accounting rules set out in Schedule 4 to the Companies Act 1985, being prepared under the historical cost convention adjusted by the revaluations of certain properties. However, compliance with SSAP19 'Accounting for investment properties' requires a departure from the requirements of the Companies Act 1985 relating to the depreciation of investment properties as described in note 11 to the financial statements on page 56.

A separate profit and loss account for the parent company has not been presented as permitted by section 230 of the Companies Act 1985.

During the year two new Financial Reporting Standards (FRSs) have been issued by the Accounting Standards Board and become effective for this year's Report and Accounts. The effects of FRS15 'Tangible Fixed Assets' and FRS16 'Current Tax' have been adopted in this year's accounts. The application of these FRSs has no significant impact on this year's accounts.

Consolidation

The group financial statements combine the results of the parent undertaking and all its subsidiaries and joint ventures, to the extent of group ownership and after eliminating intra-group transactions.

The results of businesses acquired or disposed of are consolidated from or to the effective dates of acquisition or disposal.

Joint ventures are those undertakings, not recognised as subsidiaries, in which the group has a participating interest and are jointly controlled. The group's share of the results of joint ventures, which are accounted for under the gross equity method, are included in the profit and loss account and its share of their net assets is included in investments in the group balance sheet.

In the parent company balance sheet, investment in subsidiaries and joint ventures are stated at cost less impairments.

Foreign currencies

The results and cash flows of overseas subsidiaries and the results of joint ventures are translated into sterling on an average exchange rate basis, weighted by the actual results of each month. Assets and liabilities including currency swaps are translated into sterling at the rates of exchange ruling at the balance sheet date.

Exchange differences arising from the translation of the results and net assets of overseas subsidiaries, less offsetting exchange differences on foreign currency borrowings and currency swaps hedging those assets (net of any related tax effects), are dealt with through reserves.

All other exchange differences are dealt with in the profit and loss account.

The cost of the parent company investment in shares in overseas subsidiaries is stated at the rate of exchange in force at the date each investment was made.

47 Accounting policies

Goodwill and intangible assets

Goodwill on acquisitions comprises the excess of the cost of investment in subsidiary undertakings and joint ventures over the fair value of net assets acquired. Fair values are attributed to the identifiable assets and liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are also made to bring the accounting policies of acquired businesses into alignment with those of the group. The costs of integrating and reorganising acquired businesses are charged to the post-acquisition profit and loss account.

Goodwill arising on acquisitions prior to 1st April 1998 has been set off against reserves. On disposal of such businesses, any goodwill previously set off against reserves is charged in the calculation of the profit or loss on disposal. For subsequent acquisitions goodwill is recognised within fixed assets in the year in which it arises and amortised on a straight line basis over its useful economic life, generally not exceeding 20 years.

The cost of intangible assets acquired, which are capitalised only if separately identifiable, is amortised over estimated useful lives generally up to a maximum of 20 years. Similar assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. The carrying value of intangible assets (including in particular those being amortised over periods greater than 20 years) is reviewed annually and any impairment in value charged to the profit and loss account.

Tangible fixed assets and depreciation

Depreciation of tangible fixed assets is provided to write-off the cost or valuation, less residual value, by equal installments over their expected economic useful lives as follows:

Freehold land, investment properties, assets in the course of construction – not depreciated

Freehold and long leasehold buildings, including (from 1st April 1999) shops with physical lives of more than 50 years – depreciated to their estimated residual values over their economic useful lives of not more than 50 years

Short leasehold properties – remaining period of lease when less than 50 years

Computer equipment – 3 to 8 years

Motor cars – 4 or 5 years

Other motor vehicles – 3 to 10 years

Fixtures and plant – 5 to 20 years

Any impairment in the value of such fixed assets is recognised immediately.

On adoption of FRS15, the company has adopted the transitional provisions to retain the book value of land and buildings many of which were last revalued in 1993 and has not adopted a policy of annual revaluations for the future. However, these values will be subject to impairment reviews as set out in FRS11 'Impairment of Fixed Assets and Goodwill'.

Investment properties are revalued annually and included in the balance sheet at their existing use value.

To qualify as an investment property, over 50% of rental income from the property must derive from non-group tenants.

Profits and losses arising from the disposal of properties which have previously been revalued are calculated by reference to their carrying value.

Interest is capitalised on all tangible fixed assets in the course of construction or development. The capitalisation rate applied depends on whether the construction is financed by a specific borrowing (based on actual interest rate) or whether it is financed by general borrowings (based on the weighted average rate on all non-specific borrowings).

Derivative financial instruments

The group holds derivative financial instruments to manage the interest risk of long term liabilities (including leases). Amounts payable or receivable in respect of interest rate derivatives are recognised on an accruals basis over the life of the instrument.

Short term debtors and creditors that meet the definitions of a financial asset or liability respectively have been excluded from the numerical disclosures as permitted by FRS13 'Derivatives and other Financial Instruments: Disclosures', as detailed in note 19 to the financial statements on pages 63 and 64.

Turnover

Turnover comprises sales to external customers (excluding VAT and other sales taxes) and rental income.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels.

48 Accounting policies

Research and development

Expenditure on research and development, other than on buildings and plant, is charged against profit in the year in which it is incurred.

Pension funding

The company and its UK subsidiaries operate pension schemes under which contributions by employees and by the companies are held in trust funds separated from the companies' finances. Actuarial valuations of the schemes are conducted at three year intervals and include a review of contributions.

The cost of providing pensions is spread over the employees' working lives with the companies. The cost charged to the profit and loss account in any year may not always equal the employer contributions to the pension schemes.

Leases

The rental costs of properties and other assets held under operating leases are charged to the profit and loss account on a straight line basis. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the profit and loss account on a straight line basis over the lease term or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

The cost of assets held under finance leases is included under tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations.

Deferred taxation

A deferred taxation provision is made only where the effects of timing differences between profits as stated in the financial statements and as computed for tax purposes are likely to reverse in the foreseeable future.

No provision is made for any potential liability to corporation tax on capital gains arising on disposals of assets where the liability is expected to be deferred indefinitely.

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiaries and associates as there is no present intention to remit the major part of these profits.

Exceptional items

Exceptional items are those which fall within the ordinary activities of the group and which need to be disclosed by virtue of their size or incidence. Such items are included within operating profit unless they represent profits or losses on the sale or termination of an operation, costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the group's operations, profits or losses on the disposal of fixed assets (other than marginal adjustments to depreciation previously charged), or provisions in respect of such items. In these cases, disclosure is made on the face of the profit and loss account after operating profit.

49 Notes relating to the financial statements

1 Segmental information

(i) Turnover by business segment

	Notes	Total 2000 £m	Inter- segmental 2000 £m	External 2000 £m	Total 1999 £m	Inter- segmental 1999 £m	External 1999 £m
Continuing operations							
Boots The Chemists		3,978.8	–	3,978.8	3,823.1	–	3,823.1
Boots Retail International – group		30.2	–	30.2	15.8	–	15.8
– share of joint venture		2.3	–	2.3	–	–	–
Boots Opticians		195.7	–	195.7	194.3	–	194.3
Halfords		492.6	0.6	492.0	457.3	0.6	456.7
Boots Properties	a	139.5	81.1	58.4	96.3	79.3	17.0
Boots Healthcare International		327.1	20.0	307.1	308.4	18.6	289.8
Boots Contract Manufacturing		321.1	198.7	122.4	309.8	194.1	115.7
handbag.com – share of joint venture		0.1	–	0.1	–	–	–
Group Strategic Initiatives		2.4	–	2.4	–	–	–
		5,489.8	300.4	5,189.4	5,205.0	292.6	4,912.4
Discontinued operation (see note 4(ii))							
Do It All		–	–	–	132.2	–	132.2
		5,489.8	300.4	5,189.4	5,337.2	292.6	5,044.6

a Boots Properties' turnover includes development income of £45.9m (1999 £4.8m).

(ii) Turnover by geographical segment

	Origin 2000 £m	Origin 1999 £m	Destination 2000 £m	Destination 1999 £m
Continuing operations				
UK	4,863.2	4,622.0	4,788.2	4,550.2
Rest of Europe	283.5	262.1	304.3	283.9
Rest of World	79.2	59.7	96.9	78.3
Inter-segmental	(36.5)	(31.4)	–	–
	5,189.4	4,912.4	5,189.4	4,912.4
Discontinued operation				
UK	–	132.2	–	132.2
	5,189.4	5,044.6	5,189.4	5,044.6

50 Notes relating to the financial statements

1 Segmental information continued

(iii) Total operating profit by business segment

Notes	Before exceptional items and QUEST 2000 £m	QUEST (note c) 2000 £m	Before exceptional items 2000 £m	Exceptional operating items (note 3) 2000 £m	Total 2000 £m	Before exceptional items 1999 £m	Exceptional operating items (note 3) 1999 £m	Total 1999 £m
Continuing operations								
Boots The Chemists	502.7	(11.1)	491.6	(22.0)	469.6	461.8	(8.9)	452.9
Boots Retail International								
– group	(27.0)	(0.1)	(27.1)	–	(27.1)	(19.2)	–	(19.2)
– share of joint venture	(5.5)	–	(5.5)	–	(5.5)	(1.7)	–	(1.7)
Boots Opticians	12.4	(1.2)	11.2	–	11.2	14.5	–	14.5
Halfords	46.2	(1.0)	45.2	–	45.2	40.3	–	40.3
Boots Properties	a	(0.1)	62.3	–	62.3	65.2	–	65.2
Boots Healthcare								
International	24.5	(0.5)	24.0	–	24.0	15.3	(5.2)	10.1
Boots Contract								
Manufacturing	27.0	(1.8)	25.2	–	25.2	24.3	(2.5)	21.8
handbag.com –								
share of joint venture	(2.9)	–	(2.9)	–	(2.9)	–	–	–
Group Strategic Initiatives	b	–	(17.7)	–	(17.7)	(0.8)	–	(0.8)
Group costs	(47.4)	6.0	(41.4)	–	(41.4)	(40.0)	(59.7)	(99.7)
	574.7	(9.8)	564.9	(22.0)	542.9	559.7	(76.3)	483.4
Discontinued operation								
Do It All	–	–	–	–	–	2.7	–	2.7
Total operating profit including joint ventures	574.7	(9.8)	564.9	(22.0)	542.9	562.4	(76.3)	486.1

a Boots Properties' results include development profit of £2.5m (1999 loss £0.2m).

b Group Strategic Initiatives represent the development of new business streams that are not contained within any current businesses.

c A further 5.7m shares have been acquired by the QUEST (see note 12) resulting in a charge against operating profits of £9.8m (1999 £Nil) in the year. These charges and the interest on borrowings to finance all the shares now held by the QUEST for the year of £6.8m have been charged to businesses. The adjustment to remove from operating profit that interest of £6.8m charged elsewhere, is shown in group costs. The cost of £59.7m of setting up the scheme last year was treated as an exceptional operating item (see note 3).

Non-operating exceptionals are shown in note 3.

(iv) Total operating profit by geographic origin

	Before exceptional items 2000 £m	Exceptional operating items (note 3) 2000 £m	Total 2000 £m	Before exceptional items 1999 £m	Exceptional operating items (note 3) 1999 £m	Total 1999 £m
Continuing operations						
UK	600.3	(22.0)	578.3	583.9	(14.7)	569.2
Rest of Europe	5.4	–	5.4	10.8	(1.4)	9.4
Rest of World	0.6	–	0.6	5.0	(0.5)	4.5
Group costs	(41.4)	–	(41.4)	(40.0)	(59.7)	(99.7)
Operating profit from continuing operations	564.9	(22.0)	542.9	559.7	(76.3)	483.4
Discontinued operation						
UK	–	–	–	2.7	–	2.7
Total operating profit including joint ventures	564.9	(22.0)	542.9	562.4	(76.3)	486.1

51 Notes relating to the financial statements

1 Segmental information continued

(v) Net assets by business segment	2000 £m	1999 £m
Continuing operations		
Boots The Chemists	909.3	835.2
Boots Retail International	41.4	32.8
Boots Opticians	51.0	50.0
Halfords	127.0	114.1
Boots Properties	838.7	884.1
Boots Healthcare International	89.8	103.1
Boots Contract Manufacturing	172.5	169.0
handbag.com	0.7	–
Net operating assets	2,230.4	2,188.3
Unallocated net liabilities	(376.9)	(407.7)
	1,853.5	1,780.6

Net operating assets include intangible and tangible fixed assets, fixed asset investments, stocks, third party debtors and creditors and inter-segmental trading balances. Unallocated net liabilities include all current taxation balances, dividend creditors, net debt and provisions for liabilities and charges.

(vi) Net operating assets by geographical segment

	2000 £m	1999 £m
Continuing operations		
UK	2,119.8	2,081.0
Rest of Europe	75.5	73.7
Rest of World	35.1	33.6
	2,230.4	2,188.3

2 Total operating profit

	Continuing operations 2000 £m	Continuing operations 1999 £m	Discontinued operation 1999 £m	Total 1999 £m
Turnover	5,187.0	4,912.4	132.2	5,044.6
Cost of sales	(2,792.3)	(2,632.9)	(62.2)	(2,695.1)
Gross profit	2,394.7	2,279.5	70.0	2,349.5
Selling, distribution and store costs	(1,462.9)	(1,415.3)	(57.4)	(1,472.7)
Research and development costs	(26.5)	(24.8)	–	(24.8)
Administrative expenses	(354.0)	(354.3)	(9.9)	(364.2)
Share of operating loss of joint ventures	(8.4)	(1.7)	–	(1.7)
Total operating profit	542.9	483.4	2.7	486.1
Exceptional charges included in operating profit:				
Cost of sales	–	(1.8)	–	(1.8)
Selling, distribution and store costs	–	(7.4)	–	(7.4)
Administrative expenses	(22.0)	(67.1)	–	(67.1)
	(22.0)	(76.3)	–	(76.3)
Gross profit before exceptional items	2,394.7	2,281.3	70.0	2,351.3
Total operating profit before exceptional items	564.9	559.7	2.7	562.4

There have been no significant acquisitions during 2000.

Total operating profit is after charging:

	2000 £m	1999 £m
Operating lease rentals		
– Property rents	198.9	182.1
– Computer and plant hire	4.0	4.0
Depreciation, amortisation and impairments of fixed assets	154.4	140.1
Permanent diminution – QUEST	9.8	–
Auditors' remuneration, including £0.3m (1999 £0.3m) for the parent company	0.8	0.8

The group auditors and their associates also received £6.4m (1999 £1.9m) in respect of non-audit services in the UK which were predominantly for a review of opportunities in financial services and £0.4m (1999 £0.3m) from overseas subsidiaries.

52 Notes relating to the financial statements

3 Exceptional items

	Notes	Continuing operations 2000 £m	Continuing operations 1999 £m	Discontinued operation 1999 £m	Total 1999 £m
Exceptional operating items:					
Boots The Chemists	a	(22.0)	(8.9)	–	(8.9)
Boots Healthcare International	b	–	(5.2)	–	(5.2)
Boots Contract Manufacturing	c	–	(2.5)	–	(2.5)
Group costs	d	–	(59.7)	–	(59.7)
		(22.0)	(76.3)	–	(76.3)
Profit on disposal of properties		12.9	4.6	0.3	4.9
Loss on disposal of business (see note 4)		–	–	(318.9)	(318.9)
		(9.1)	(71.7)	(318.6)	(390.3)
Attributable tax credit (see note 6)		6.3	23.6	–	23.6
		(2.8)	(48.1)	(318.6)	(366.7)

a Boots The Chemists has incurred costs of reorganising its head office in Nottingham. Costs were incurred last year for integrating the Hayes Conyngham & Robinson and Connors businesses into the Boots The Chemists chain.

b Boots Healthcare International incurred costs last year associated with the restructuring of business support services.

c Boots Contract Manufacturing initiated a competitive cost programme resulting in redundancy costs last year.

d Last year the group established a QUEST (see note 12). The amount shown last year represents the cost of the company's contribution to the QUEST being the difference between the market value of the shares bought by the QUEST and the option price payable by employees to acquire those shares when SAYE options over them mature. This charge was exceptional last year because it related to all options granted over a number of years up to 31st March 1999. Current year costs have been charged against operating profit (see note 1(iii)).

4 Acquisition and disposal of businesses

(i) Acquisitions

	Total 2000 £m	Total 1999 £m
Tangible fixed assets	–	4.6
Stocks	0.1	7.7
Debtors	0.4	1.6
Cash balances/(overdrafts)	0.1	(4.1)
Other creditors and provisions	(0.5)	(8.5)
Fair value of net assets acquired	0.1	1.3
Goodwill – current year	3.3	22.8
– relating to acquisitions prior to 1st April 1998	–	1.4
Consideration including acquisition costs	3.4	25.5
Variable rate loan notes consideration included above	–	16.8

All businesses purchased have been accounted for using the acquisition method of accounting. None of these were individually significant and are therefore not shown separately.

During the year Boots The Chemists acquired a number of pharmacy businesses. There were no significant fair value adjustments in respect of any of these acquisitions.

Goodwill relating to acquisitions in the year is being amortised over 20 years.

The principal purchase during the year to 31st March 1999 was the acquisition by Boots The Chemists on 7th April 1998 of Connors Holdings Ltd, a privately owned retail pharmacy chain for £17m with stores in Northern Ireland, the Republic of Ireland, England and Wales.

53 Notes relating to the financial statements

4 Acquisition and disposal of businesses continued

(ii) Disposal

	2000 £m	1999 £m
Tangible fixed assets	–	(55.7)
Stocks	–	(68.9)
Debtors	–	(12.4)
Overdrafts	–	0.1
Other creditors and provisions	–	70.0
Net assets disposed of	–	(66.9)
Related goodwill	–	(312.2)
Disposal and other termination costs	–	(2.0)
Consideration	–	62.2
Loss on disposal	–	(318.9)
Consideration repayable included above	–	(2.3)

Do It All

The disposal in the year to 31st March 1999 was the sale of Do It All to Focus Retail Group Ltd (Focus) that was completed on 19th August 1998 for a consideration of £62.2m which includes a repayment by Boots of £2.3m to Focus in respect of the final settlement on completion of the net asset value statement in May 1999. Boots will continue to act as guarantor for leases on 29 stores associated with this transaction with a total annual rent of £6m.

(iii) Net cash (outflow)/inflow for acquisitions and disposals

	2000 £m	1999 £m
Acquisition of businesses	(3.4)	(8.7)
Cash balances/(overdrafts) acquired with businesses	0.1	(4.1)
Instalment received on loan made to W H Smith	10.0	10.0
Disposal of business	–	64.5
Overdrafts sold with businesses	–	0.1
Deferred consideration in respect of prior year acquisitions and disposals	(2.3)	(0.1)
Costs of disposal paid	–	(0.4)
Investment in joint ventures	(8.3)	(6.5)
Investment by minority interests in subsidiary undertaking	1.3	0.4
	(2.6)	55.2

54 Notes relating to the financial statements

5 Net interest

	2000 £m	1999 £m
Interest payable and similar charges:		
Bank loans and overdrafts	(12.9)	(14.8)
Other loans	(40.4)	(27.8)
Finance lease charges	(1.3)	(1.3)
Interest capitalised	1.0	3.1
Income from interest rate swaps	23.9	8.8
	(29.7)	(32.0)
Interest receivable and similar income	17.4	13.7
Increase in value of investment in 10.125% bond 2017	18.2	16.5
Net interest	5.9	(1.8)

6 Tax on profit on ordinary activities

	2000 £m	1999 £m
UK corporation tax at 30.0% (1999 31.0%):		
Current tax on income for the period	164.2	135.5
Adjustment in respect of prior periods	(2.1)	3.7
	162.1	139.2
Deferred taxation	(3.4)	4.6
Relief for overseas taxation	(3.7)	(1.3)
Total UK taxation	155.0	142.5
Overseas taxation:		
Current tax on income for the period	7.2	5.6
Adjustments in respect of prior period	(0.1)	(1.2)
Overseas deferred taxation	0.4	(0.6)
Total	162.5	146.3
Tax credit included above attributable to operating exceptional items	(6.3)	(23.6)
Share of tax credit of joint ventures included above	(0.8)	–

7 Profit for the financial year attributable to shareholders

Of the profit attributable to shareholders, £59.0m (1999 £73.2m) is dealt with in the financial statements of the parent company.

8 Dividends

	2000 p per share	1999 p per share	2000 £m	1999 £m
Interim	7.5	7.1	66.5	64.8
Final proposed	17.7	16.7	155.2	149.7
	25.2	23.8	221.7	214.5

55 Notes relating to the financial statements

9 Earnings per share	2000	1999
Basic earnings per share before exceptional items	45.4p	42.9p
Effect of exceptional items	(0.4)p	(40.3)p
Basic earnings per share	45.0p	2.6p
Diluted earnings per share before exceptional items	45.1p	42.5p
Effect of exceptional items	(0.3)p	(39.9)p
Diluted earnings per share	44.8p	2.6p

The calculation of basic and diluted earnings per share is based on:

Earnings	2000 £m	1999 £m
Earnings for adjusted basic and diluted earnings per share calculation	401.8	390.6
Exceptional items	(2.8)	(366.7)
Earnings for basic and diluted earnings per share calculation	399.0	23.9

Number of shares	2000 million	1999 million
Weighted average number of shares used in basic earnings per share calculation	885.7	911.1
Dilutive effect of options	5.0	8.3
Weighted average number of shares used in diluted earnings per share calculation	890.7	919.4

The weighted average number of shares used in basic earnings per share calculation excludes shares held by The Boots ESOP Trust and the QUEST.

The dilutive effect relates to options under an employee savings related scheme and an executive option scheme.

Basic and diluted earnings per share before exceptional items are disclosed to reflect the underlying performance of the group.

10 Intangible fixed assets

	Group Purchased goodwill £m	Group Patents, trademarks and other product rights acquired £m	Group Total £m	Parent Patents, trademarks and other product rights acquired £m
Cost				
At 1st April 1999	22.8	61.1	83.9	9.0
Currency adjustments	–	(2.3)	(2.3)	–
Additions	–	0.9	0.9	0.1
Acquisition of businesses (see note 4)	3.3	–	3.3	–
At 31st March 2000	26.1	59.7	85.8	9.1
Amortisation				
At 1st April 1999	0.9	18.6	19.5	6.2
Currency adjustments	–	(0.4)	(0.4)	–
Amortisation for year	1.2	3.2	4.4	0.7
At 31st March 2000	2.1	21.4	23.5	6.9
Net book value at 1st April 1999	21.9	42.5	64.4	2.8
Net book value at 31st March 2000	24.0	38.3	62.3	2.2

Brands previously acquired by Boots Healthcare International (BHI), namely Dobendan and its derivatives, and Migränin are well known and well positioned in their markets and BHI plans to improve this position. BHI concluded that these brands have an indefinite useful economic life and they are not being amortised. As a consequence an annual impairment review is being undertaken. The valuation of these brands is significantly in excess of the carrying value.

56 Notes relating to the financial statements

11 Tangible fixed assets

Group	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation					
At 1st April 1999	899.0	347.5	1,274.3	73.6	2,594.4
Currency adjustments	(1.3)	(1.1)	(0.9)	–	(3.3)
Additions	73.1	34.2	126.9	18.6	252.8
Disposals	(72.8)	(27.8)	(65.1)	–	(165.7)
Reclassifications	28.4	3.1	33.1	(64.6)	–
Revaluation deficit on investment properties	(3.3)	–	–	–	(3.3)
Impairment losses on revalued assets	(1.1)	–	–	–	(1.1)
At 31st March 2000	922.0	355.9	1,368.3	27.6	2,673.8
Gross book value of depreciable assets	464.8	355.9	1,368.3	18.1	2,207.1
Depreciation					
At 1st April 1999	45.2	137.4	623.2	–	805.8
Currency adjustments	(0.2)	(0.5)	(0.4)	–	(1.1)
Depreciation for year	10.5	38.0	96.6	–	145.1
Disposals	(0.9)	(19.0)	(55.4)	–	(75.3)
Reclassifications	–	0.6	(0.6)	–	–
Impairment losses	0.3	–	–	–	0.3
At 31st March 2000	54.9	156.5	663.4	–	874.8
Net book value at 1st April 1999	853.8	210.1	651.1	73.6	1,788.6
Net book value at 31st March 2000	867.1	199.4	704.9	27.6	1,799.0

The cost of plant and machinery includes £27.7m (1999 £30.8m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £9.2m (1999 £9.6m) and for which the depreciation charge for the year was £5.8m (1999 £5.8m).

Land and buildings and assets in course of construction include capitalised interest, net of taxation, of £5.7m (1999 £5.2m).

Land and buildings include investment properties as follows:

Valuation	£m
At 1st April 1999	105.2
Additions	11.3
Disposals	(27.9)
Reclassifications	7.8
Revaluation deficit	(3.3)
At 31st March 2000	93.1

Investment properties were valued on the basis of existing use value at 31st March 2000 by the group's own professionally qualified staff.

In accordance with SSAP19, no depreciation is provided in respect of investment properties. This represents a departure from the Companies Act 1985 requirements to provide for the systematic annual depreciation of fixed assets. However, these properties are held for investment, rather than consumption, and the directors consider that the adoption of the above policy is necessary to give a true and fair view.

57 Notes relating to the financial statements

11 Tangible fixed assets continued

Parent	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation					
At 1st April 1999	403.6	236.9	198.0	8.7	847.2
Additions	1.3	12.8	24.7	4.2	43.0
Disposals	(3.1)	(12.3)	(42.0)	–	(57.4)
Reclassifications and transfers	0.2	3.3	1.7	(8.1)	(2.9)
At 31st March 2000	402.0	240.7	182.4	4.8	829.9
Gross book value of depreciable assets	173.7	240.7	182.4	4.8	601.6
Depreciation					
At 1st April 1999	22.0	97.1	107.2	–	226.3
Depreciation for year	2.5	21.4	15.6	–	39.5
Disposals	(0.1)	(9.1)	(37.4)	–	(46.6)
Transfers	0.1	1.1	(0.4)	–	0.8
At 31st March 2000	24.5	110.5	85.0	–	220.0
Net book value at 1st April 1999	381.6	139.8	90.8	8.7	620.9
Net book value at 31st March 2000	377.5	130.2	97.4	4.8	609.9

The cost of plant and machinery includes £15.3m (1999 £17.6m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £5.2m (1999 £5.5m) and for which the depreciation charge for the year was £3.4m (1999 £3.5m).

	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Net book value of land and buildings comprises:				
Freehold	667.1	656.3	343.7	346.5
Long leasehold (more than 50 years unexpired)	159.5	162.2	33.8	35.1
Short leasehold	40.5	35.3	–	–
	867.1	853.8	377.5	381.6
Analysis of cost or valuation:				
Cost	2,041.1	1,897.6	822.3	839.6
Valuation of properties – Directors 1993	531.0	582.9	–	–
– Independent 1989 and prior	8.6	8.7	7.6	7.6
Investment properties – Directors 2000	93.1	105.2	–	–
	2,673.8	2,594.4	829.9	847.2
Value of tangible fixed assets under the historical cost convention				
Cost	2,403.7	2,317.5	833.0	846.5
Depreciation	873.8	804.9	221.9	225.9
Net book value	1,529.9	1,512.6	611.1	620.6

The valuations are on an open market basis for existing use.

58 Notes relating to the financial statements

12 Fixed asset investments

Group	Joint venture equity £m	Loans to joint venture £m	Own shares £m	Total £m
Cost				
At 1st April 1999	6.2	–	170.6	176.8
Currency adjustments	1.1	–	–	1.1
Additions	6.1	2.2	51.5	59.8
Disposals	–	–	(22.6)	(22.6)
Share of retained losses	(7.6)	–	–	(7.6)
At 31st March 2000	5.8	2.2	199.5	207.5
Provision/amortisation				
At 1st April 1999	–	–	64.4	64.4
Disposals	–	–	(12.5)	(12.5)
Permanent diminution – QUEST	–	–	9.8	9.8
Amortisation of own shares – ESOP	–	–	4.6	4.6
At 31st March 2000	–	–	66.3	66.3
Net book value at 1st April 1999	6.2	–	106.2	112.4
Net book value at 31st March 2000	5.8	2.2	133.2	141.2

Parent	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Joint venture equity £m	Loans to joint venture £m	Own shares £m	Total £m
Cost						
At 1st April 1999	1,586.3	96.1	6.5	–	170.6	1,859.5
Currency adjustments	–	(1.4)	–	–	–	(1.4)
Additions	30.7	29.5	6.1	2.2	51.5	120.0
Disposals and repayments	(45.0)	(32.3)	–	–	(22.6)	(99.9)
At 31st March 2000	1,572.0	91.9	12.6	2.2	199.5	1,878.2
Provision/amortisation						
At 1st April 1999	69.1	2.1	–	–	64.4	135.6
Disposals	(41.9)	–	–	–	(12.5)	(54.4)
Movement	(0.7)	–	–	–	–	(0.7)
Permanent diminution – QUEST	–	–	–	–	9.8	9.8
Amortisation of own shares – ESOP	–	–	–	–	4.6	4.6
At 31st March 2000	26.5	2.1	–	–	66.3	94.9
Net book value at 1st April 1999	1,517.2	94.0	6.5	–	106.2	1,723.9
Net book value at 31st March 2000	1,545.5	89.8	12.6	2.2	133.2	1,783.3

The principal subsidiary undertakings and joint ventures are listed on page 71.

No interest is payable on loans made to joint ventures.

59 Notes relating to the financial statements

12 Fixed asset investments continued

Own shares

Boots ESOP Trust Ltd, on behalf of The Boots Employee Trust, holds shares in the company which may subsequently be transferred to executive directors and senior employees under Boots Long Term Bonus Scheme (see page 34) and Boots Restricted Share Co-Investment Scheme. Under this latter scheme, awards under which have now ceased, participating senior employees purchased shares in the company using up to 50% of their annual bonus earned during the previous year and were granted a potential entitlement to receive a number of further shares equivalent to twice the pre-tax value of the sum invested. The employees' entitlement to receive the shares at the end of a specified performance period depends on the company's total shareholder return, compared to a peer group of companies, over that period. At 31st March 2000, the trust held 2.4m (1999 1.6m) shares in the company with a market value of £12.9m (1999 £14.7m). Dividends have been waived by the trust. The shares were purchased to service Boots Long Term Bonus Scheme and Boots Restricted Share Co-investment Scheme awards for all the performance cycles that have begun. Estimates have been made for the number of shares required for performance cycles which have not yet ended. Their cost, £22m, is being charged to the profit and loss account over the relevant performance and service periods. Costs of administering the trust are charged to the profit and loss account.

Last year a qualifying employee share ownership trust (QUEST) was established by the company. The purpose of the QUEST is to acquire shares in the company as a means through which shares will be delivered to employees (including executive directors) who exercise options granted in respect of the company's shares under the Boots 1990 SAYE Share Option Scheme. Under this scheme, options have been granted enabling employees to subscribe for ordinary shares at 80% of the average middle market price on the three days preceding the date of offer. The options may normally be exercised up to six months after they mature either three, five or seven years after grant. A provision for permanent diminution in the value of shares purchased, being the difference between the market value of the shares bought by the QUEST and the option price payable by employees, is made at the date of purchase. The impact of such impairment provisions on the results of the group and individual businesses is shown in note 1(iii).

During the year a further 5.7m shares have been acquired by the QUEST. At 31st March 2000 20.1m (1999 16.9m) ordinary shares with a market value of £108.0m (1999 £150.9m) were held by the QUEST of which 2.4m related to lapsed options. The company provides funds to the trust to purchase the shares. Dividends have been waived by the trust.

Outstanding options for which shares have been acquired are as follows:

Option granted	Number of shares (millions) 2000	Number of shares (millions) 1999	Option price (p)
1991	–	0.1	337
1992	–	0.4	352
1992	0.1	0.2	386
1993	0.3	0.3	350
1993	0.3	0.4	418
1994	0.3	1.1	421
1994	0.6	1.0	415
1995	1.6	1.8	410
1996	2.1	3.0	485
1997	3.8	4.6	588
1998	2.7	4.0	808
1999	5.9	–	624

Both the ESOP Trust and the QUEST are regarded as quasi subsidiaries under FRS5 and their assets, liabilities and results are consolidated into the financial statements of both the company and the group.

60 Notes relating to the financial statements

13 Stocks

	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Manufacturing:				
Raw materials	24.6	24.8	13.5	14.0
Work in progress	10.5	9.2	8.0	7.3
Finished goods	55.9	58.3	30.5	35.2
	91.0	92.3	52.0	56.5
Retailing	584.2	578.7	146.2	143.6
Property development	14.3	51.0	–	–
	689.5	722.0	198.2	200.1

14 Debtors

	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Falling due within one year:				
Trade debtors	282.3	268.7	61.6	49.5
Owed by subsidiary undertakings	–	–	91.4	185.6
Owed by joint ventures	1.8	1.7	1.6	1.5
Other debtors	33.9	43.0	45.1	58.9
Prepayments and accrued income	83.9	72.4	29.5	16.5
Corporation tax	2.6	2.3	0.6	–
Advance corporation tax	–	–	–	51.7
	404.5	388.1	229.8	363.7
Falling due after more than one year:				
Owed by subsidiary undertakings	–	–	390.3	250.9
Other debtors	4.0	14.1	14.4	22.3
Deferred tax (see note 20)	–	–	4.7	–
	4.0	14.1	409.4	273.2
	408.5	402.2	639.2	636.9

61 Notes relating to the financial statements

15 Current asset investments and deposits

	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Listed investments	0.1	0.1	–	–
Short term deposits	379.1	96.3	357.9	67.9
Certificates of tax deposit	–	9.4	–	9.4
	379.2	105.8	357.9	77.3
Market value of investments listed on The London Stock Exchange	0.2	0.2	–	–

16 Creditors: Amounts falling due within one year

	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Borrowings (see note 18)	210.8	246.3	617.7	345.1
Trade creditors	355.3	360.2	273.3	270.4
Bills of exchange	3.7	2.8	–	0.1
Due to subsidiary undertakings	–	–	138.6	48.7
Corporation tax	124.7	106.0	14.9	8.3
Advance corporation tax	–	16.1	–	16.1
Taxation and social security (including VAT and other sales taxes)	39.7	37.0	14.5	16.1
Other creditors	139.4	171.0	78.9	83.8
Accruals and deferred income	124.4	101.8	67.6	47.6
Dividends (see note 8)	155.2	149.8	155.2	149.7
	1,153.2	1,191.0	1,360.7	985.9

17 Creditors: Amounts falling due after more than one year

	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Borrowings (see note 18)	449.0	186.5	676.7	385.4
Due to subsidiary undertakings	–	–	65.9	104.9
Due to joint ventures	–	0.2	–	–
Other creditors	7.2	5.1	3.7	2.4
Accruals and deferred income	33.0	38.9	21.2	20.9
	489.2	230.7	767.5	513.6

The only creditors falling due after more than five years are included in borrowings, details of which are shown in note 18.

62 Notes relating to the financial statements

18 Borrowings

	Notes	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Bank loans and overdrafts repayable on demand		103.1	130.3	555.5	277.2
Other bank loans and overdrafts	a	161.3	131.2	157.2	124.3
Variable rate notes – Sterling	b	11.8	28.3	–	11.4
– Irish punts	b	10.5	11.3	–	–
Commercial paper		–	39.7	–	39.7
10.125% bond 2017	c	47.6	65.8	263.5	259.6
5.5% eurobond 2009	d	300.0	–	300.0	–
Net liability under currency swaps	e	8.4	6.3	8.4	6.3
Obligations under finance leases		17.1	19.9	9.8	12.0
		659.8	432.8	1,294.4	730.5
Amounts included above repayable by instalments		187.4	221.3	122.0	136.2
Repayments fall due as follows:					
Within one year:					
– Bank loans and overdrafts		149.4	130.7	600.5	277.2
– Obligations under finance leases		6.9	7.8	4.2	4.8
– Other borrowings		54.5	107.8	13.0	63.1
		210.8	246.3	617.7	345.1
After more than one year:					
– Within one to two years		45.1	44.1	17.5	17.2
– Within two to five years		68.7	85.5	324.0	315.1
– After five years		335.2	56.9	335.2	53.1
		449.0	186.5	676.7	385.4
		659.8	432.8	1,294.4	730.5

a Other bank loans and overdrafts include the factoring of certain rental commitments of £112.2m (1999 £124.3m) over a ten year period up to March 2007, £95m of which was swapped into a floating rate of interest.

b Variable rate notes are repayable, subject to certain restrictions, at the option of the holders.

c A subsidiary, Boots Investments Limited, owns all the £250m 10.125% bond 2017 of The Boots Company PLC, together with all the outstanding interest coupons other than those maturing on or before 24th June 2002. The parent company has entered into an agreement with Boots Investments Limited to redeem the bond on 25th June 2002 for an amount of £275m. The group balance sheet consolidates the borrowing by the parent company with the present value of the investment held by the subsidiary.

d A £300m eurobond was issued during the year on which fixed rate interest of 5.5% is charged and is redeemable in May 2009.

e The group has a number of US dollar currency swaps, which are equivalent to borrowing US dollars and depositing sterling for a fixed period. Following the disposal of Boots Pharmaceuticals on 31st March 1995, the group put in place a series of matching swaps, which are equivalent to depositing US dollars and borrowing sterling. The net liability shown above represents the effect of translating the above transactions into sterling at the year end exchange rate.

The group has a number of interest rate swap agreements which convert fixed rate liabilities to floating rate. The fixed rate commitments effectively converted are, £40m of the 10.125% bond, £300m of the 5.5% eurobond, £1,100m of operating leases and £95m referred to in note 'a' above. Further details are provided in the financial review on page 24.

All borrowings are unsecured.

63 Notes relating to the financial statements

19 Financial instruments and derivatives

An explanation of treasury policy and controls can be found in the financial review on page 24.

(i) Fair values of financial assets and liabilities

The fair value of currency and interest rate swaps, fixed rate borrowings, and long term financial assets on which no interest is paid have been determined with reference to market prices using discounted cash flows. All other financial assets and liabilities are at floating rates of interest and therefore their fair value and book value are equal.

The majority of the interest rate swaps shown below relate to the swapping of implied fixed rate interest payments on operating leases to floating rate.

	Note	Book value 2000 £m	Fair value 2000 £m	Book value 1999 £m	Fair value 1999 £m
Primary financial instruments held or issued to finance the company's operations:					
Cash in hand and bank		43.0	43.0	32.2	32.2
Current asset investments and deposits		379.2	379.2	105.8	105.8
Other financial assets	a	2.0	2.0	22.2	21.4
Bank loans and overdrafts repayable on demand		(103.1)	(103.1)	(130.3)	(130.3)
Eurobond		(300.0)	(282.7)	–	–
Obligations under finance leases		(17.1)	(17.1)	(19.9)	(19.9)
Other borrowings (excluding currency swaps)		(231.2)	(230.5)	(276.3)	(294.1)
Other financial liabilities	a	(1.3)	(1.3)	(0.6)	(0.6)
Derivative financial instruments held to manage interest rate and currency profile:					
Interest rate swaps relating to operating leases		–	41.3	–	120.3
Interest rate swaps relating to fixed rate borrowings		–	(11.9)	–	15.7
Currency swaps (see note 18)		(8.4)	(13.4)	(6.3)	(14.9)
Interest rate caps		–	(0.3)	–	(1.2)

a Other financial assets and liabilities are not included in net debt (see note 24)

(ii) Interest rate risk profile

The tables below reflect the interest rate risk profile after taking into account the effect of interest rate swaps.

(a) Financial liabilities

Currency	Floating rate £m	Fixed rate £m	Financial liabilities on which no interest is payable £m	Total £m	Fixed rate weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	(592.0)	(41.8)	–	(633.8)	8.1	3.9
Other	(22.8)	(8.8)	(0.5)	(32.1)	8.6	2.7
At 31st March 2000	(614.8)	(50.6)	(0.5)	(665.9)	8.2	3.7
Sterling	(335.4)	(59.3)	(0.6)	(395.3)	8.3	4.9
Other	(30.7)	(7.4)	–	(38.1)	8.5	3.6
At 31st March 1999	(366.1)	(66.7)	(0.6)	(433.4)	8.3	4.8

The financial liability on which no interest is payable, is repayable on demand.

In addition to the financial instruments included above, the group also holds a number of interest rate swaps that are used to manage the implicit fixed rate interest on leases. At the year end the notional amount of these swaps was £1,100m (1999 £875m), with an average life to maturity of 7.9 years (1999 7.3 years) and a weighted average fixed rate of 7.4% (1999 7.7%). The floating rate payable on these swaps is based on LIBOR and is capped at 9% for £700m (1999 9% for £700m) of the swaps.

(b) Financial assets

Currency	Floating rate £m	Fixed rate £m	Financial assets on which no interest is receivable £m	Total £m	Fixed rate weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	379.3	–	2.9	382.2	–	–
Other	34.5	6.8	5.5	46.8	3.0	0.9
At 31st March 2000	413.8	6.8	8.4	429.0	3.0	0.9
Sterling	85.3	–	22.5	107.8	–	–
Other	45.6	4.5	2.3	52.4	2.6	0.8
At 31st March 1999	130.9	4.5	24.8	160.2	2.6	0.8

All financial assets on which no interest is receivable are repayable on demand.

The other currency financial assets relate mainly to bank deposits held by foreign subsidiary companies.

The majority of the floating rate assets and liabilities receive or pay interest based on rates ruling in the London inter-bank market.

64 Notes relating to the financial statements

19 Financial instruments and derivatives continued

(iii) Foreign currency exposure profile

Operations with a sterling functional currency have Irish punts and US dollar monetary liabilities amounting to £10.5m (1999 £11.4m) and £13.1m (1999 £12.0m) respectively.

There were no other material foreign currency monetary assets and liabilities that may give rise to an exchange gain or loss in the profit and loss account.

(iv) Maturity of financial instruments/facilities

At 31st March 2000 the company had the following undrawn committed facilities available:

	2000 £m	1999 £m
Expiring in one year or less	–	–
Expiring in more than one year but not more than two years	–	60.0
Expiring in more than two years	600.0	540.0
	600.0	600.0

(v) The maturity of borrowings

Details are shown in note 18.

(vi) Hedging

Gains arising from the hedging of interest rates of £23.9m (1999 £8.8m) have been recognised in the profit and loss account. Included in the amount for interest receivable from interest rate swaps is a charge of £0.6m (1999 £0.4m) relating to interest rate swaps begun in the current year. The fair values of unrecognised gains and losses at the balance sheet date are disclosed as part of note 19 (i) on page 63.

It is not possible to forecast meaningfully the amount that will be recognised in the profit and loss account next year. Further information about these hedges can be found within the financial review on page 24, note 18 and note 19 (ii).

65 Notes relating to the financial statements

20 Provisions for liabilities and charges

Group	Deferred taxation £m	Acquisition provisions £m	Disposal provisions £m	Vacant property provisions £m	Total £m
At 1st April 1999	19.8	0.7	4.8	–	25.3
Profit and loss account	(3.0)	–	–	–	(3.0)
Utilised	–	(0.1)	(1.7)	–	(1.8)
Transfers (to)/from creditors	–	(0.6)	(3.1)	10.0	6.3
At 31st March 2000	16.8	–	–	10.0	26.8

The vacant property provisions represent recognition of the net costs arising from vacant properties and sub-let properties, the exact timing of utilisation of these provisions will vary according to the individual properties concerned.

Parent	Deferred taxation £m	Disposal provisions £m	Total £m
At 1st April 1999	0.8	4.0	4.8
Profit and loss account	(5.5)	–	(5.5)
Utilised	–	(1.7)	(1.7)
Transfers to creditors	–	(2.3)	(2.3)
Transfer to debtors (see note 14)	4.7	–	4.7
At 31st March 2000	–	–	–

	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Analysis of deferred taxation provision:				
Accelerated capital allowances	13.7	11.8	–	–
Other items	3.1	8.0	(4.7)	0.8
	16.8	19.8	(4.7)	0.8
Unprovided deferred taxation:				
Accelerated capital allowances	77.2	79.6	27.3	28.6
Other items	1.8	(1.9)	2.3	(1.1)
	79.0	77.7	29.6	27.5

It is not anticipated that any significant taxation will become payable on the revaluation surplus, as taxation on gains on properties used for the purposes of the group's trade is expected to be deferred indefinitely or eliminated by capital losses.

66 Notes relating to the financial statements

21 Capital and reserves

Group	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st April 1999	228.8	252.0	276.2	36.8	986.4	1,780.2
Profit retained	–	–	–	–	177.3	177.3
Revaluation deficit	–	–	(3.3)	–	–	(3.3)
Revaluation surplus realised on disposals	–	–	(4.9)	–	4.9	–
Impairment losses on revalued assets	–	–	(1.1)	–	–	(1.1)
Issue of shares	–	0.5	–	–	–	0.5
Repurchase of shares (see note 22)	(4.0)	–	–	4.0	(95.4)	(95.4)
Currency adjustments	–	–	–	–	(6.6)	(6.6)
At 31st March 2000	224.8	252.5	266.9	40.8	1,066.6	1,851.6

The revaluation reserve includes £0.5m (1999 £5.5m) relating to investment properties.

Goodwill set off against reserves in respect of businesses still within the group is £783.9m (1999 £783.9m).

Parent	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st April 1999	228.8	252.0	36.8	1,250.6	1,768.2
Loss retained	–	–	–	(162.7)	(162.7)
Issue of shares	–	0.5	–	–	0.5
Repurchase of shares (see note 22)	(4.0)	–	4.0	(95.4)	(95.4)
At 31st March 2000	224.8	252.5	40.8	992.5	1,510.6

67 Notes relating to the financial statements

22 Share capital

	Number of shares 2000 million	Number of shares 1999 million	2000 £m	1999 £m
Ordinary shares of 25p each:				
Authorised	1,200.0	1,200.0	300.0	300.0
Allotted, called up and fully paid	899.3	915.2	224.8	228.8

Shares allotted during the year

	Number million	Nominal value £m	Consideration £m
Option schemes	0.1	–	0.5

Share repurchase

During the period September 1999 to February 2000, the company purchased, and subsequently cancelled, 16.0m ordinary shares at prices ranging from 469p per share to 688p per share, with an average of 593p per share. The total cost of the purchases including expenses was £95.4m, which has been charged against distributable reserves.

Share options

Under a savings-related scheme, options may be granted enabling employees to subscribe for ordinary shares at approximately 80% of market price. At 31st March 2000, options exercisable from 2000 to 2007 at between 350p and 808p per share were outstanding in respect of 17.7m shares. Last year a qualifying employee share ownership trust was established to acquire shares in the company as a means by which shares would be delivered to employees exercising the options granted (see note 12).

Under an executive share option scheme, certain senior executives were granted options to subscribe for ordinary shares at a future date at a price based on the market price prevailing a few days before the date of grant. The practice of granting such options has ceased.

At 31st March 2000, such options were outstanding as follows:

Number of shares	Option price	Exercisable from 1st June 2000 to
2,500	286p	July 2000
63,500	399p	July 2001
71,500	437p	August 2002
97,500	438p	June 2003
149,000	531p	June 2004
20,000	519p	November 2004
10,000	482p	February 2005

At 31st March 2000 there were no outstanding executive share options held by executive directors.

68 Notes relating to the financial statements

23 Detailed analysis of gross cash flows

	2000 £m	1999 £m
Exceptional operating cash flows:		
Restructuring and integration costs paid	(17.3)	(9.3)
Cash flows relating to prior year disposals/acquisitions	(2.0)	(5.5)
VAT recovered from HM Customs & Excise	–	0.3
	(19.3)	(14.5)
Returns on investment and servicing of finance:		
Interest paid	(35.0)	(43.1)
Interest received	25.2	18.2
	(9.8)	(24.9)
Capital expenditure and financial investment:		
Purchase of fixed assets	(265.7)	(372.1)
Disposal of fixed assets	92.5	73.7
Purchase of own shares	(57.9)	(160.1)
Disposal of own shares	10.1	–
	(221.0)	(458.5)
Management of liquid resources:		
(Increase)/decrease in short term deposits	(283.6)	122.8
	(283.6)	122.8
Financing:		
Capital element of finance lease rental agreements	(6.9)	(6.5)
5.5% eurobond 2009	300.0	–
(Decrease)/increase in other borrowings	(25.4)	25.9
Cash inflow from change in borrowings and lease financing	267.7	19.4
Issue of ordinary share capital	0.5	8.8
Repurchase of shares	(95.4)	–
	172.8	28.2

24 Analysis of net debt

	As at 1st April 1999 £m	Cash flow £m	Other non-cash changes £m	Currency £m	As at 31st March 2000 £m
Cash at bank and in hand	32.2	11.8	–	(1.0)	43.0
Bank loans and overdrafts repayable on demand	(130.3)	27.0	–	0.2	(103.1)
Cash	(98.1)	38.8	–	(0.8)	(60.1)
Liquid resources	105.8	283.6	(9.4)	(0.8)	379.2
Obligations under finance leases	(19.9)	6.9	(4.1)	–	(17.1)
Other borrowings (including currency swaps)	(282.6)	(274.6)	16.1	1.5	(539.6)
Total	(294.8)	54.7	2.6	(0.1)	(237.6)

Liquid resources comprise listed investments, short term deposits and certificates of tax deposits (see note 15).

69 Notes relating to the financial statements

25 Commitments and contingent liabilities

(i) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:

	Group 2000 £m	Group 1999 £m	Parent 2000 £m	Parent 1999 £m
Contracts placed	77.1	107.9	3.0	16.0

(ii) Annual commitments under operating leases are as follows:

	Group Land and buildings £m	Group Other £m	Parent Land and buildings £m	Parent Other £m
Expiring:				
Within one year	8.5	0.8	1.3	–
Over one year and less than five years	21.7	2.6	1.5	1.1
Over five years	156.5	–	2.1	–
At 31st March 2000	186.7	3.4	4.9	1.1
Expiring:				
Within one year	4.6	1.1	0.2	–
Over one year and less than five years	20.4	1.3	3.6	–
Over five years	144.5	–	2.6	–
At 31st March 1999	169.5	2.4	6.4	–

(iii) Contingent liabilities

Knoll Pharmaceutical Co. ('Knoll') is a defendant in a number of consumer class actions in 30 states of the USA, Canada and Puerto Rico. Knoll is the successor to Boots Pharmaceuticals Inc., formerly an indirect subsidiary of the company, which was sold to the BASF group under agreements made by the company in March 1995. The company has been named as a defendant in some of these actions, which allege that the marketing of the product Synthroid did not comply with consumer protection and business practice laws. A revised settlement by Knoll of most of the consumer actions and claims of insurers and state attorneys general is currently under consideration for approval by the federal court in Illinois. Actions also have been filed against Knoll by various insurers and state attorneys general and some additional claims have been asserted against the company. The company asserts that the relevant courts in North America have no jurisdiction over it in these cases and this has been approved by a state court in Illinois. In the light of current information, the directors believe that the company has good defences to claims concerning Synthroid including any that might be brought by BASF and, while the outcome of such claims remains uncertain, they believe that it should not have a material adverse impact on the group.

26 Pensions

The group operates pension schemes throughout the world, most of which are final salary (defined benefit) schemes, and are fully funded.

The principal UK pension scheme is Boots Pension Scheme. The independent scheme actuary carried out the latest valuation of the scheme as at 1st April 1998 using the projected unit method. The financial assumptions were derived from market yields on bonds at the valuation date. The key assumptions used for accounting purposes and the resulting funding level are given below.

Pension increases	3.0% p.a.
General pay increases	4.5% p.a.
Investment return	6.5% p.a.
Market value of assets	£2,025m
Value of accrued liabilities	£1,674m
Funding level	121%

The pension charge for the year was £5m (1999 £5m). This arises as a result of the regular cost of pensions being offset by amortisation of the surpluses disclosed by the 1989, 1992 and 1998 valuations and increased by the amortisation of the deficit in respect of the 1995 valuation. The surplus disclosed at the 1998 valuation is being recognised over approximately 13 years, the expected average remaining service life of members. The remaining amortisation period of the surpluses/deficits disclosed at the 1989, 1992 and 1995 valuations are approximately two, six, and nine years respectively.

The company recommenced contributions to the scheme at the rate of 10% of pensionable salaries from November 1999. Contributions paid in the year amounted to £17m. A pension provision of £5m (1999 £17m) is included within other creditors.

In common with other companies, additional pension arrangements (defined benefit) exist for those more recently recruited senior executives whose benefits, relative to long serving staff, are subject to statutory restrictions.

70 Notes relating to the financial statements

27 Staff numbers and costs

The average number of persons employed by the group during the year was as follows:

	2000 Number of heads	2000 Full time equivalents	1999 Number of heads	1999 Full time equivalents
Continuing operations				
Boots The Chemists	62,133	37,630	63,173	38,926
Boots Retail International	961	792	571	497
Boots Opticians	4,349	3,319	4,526	3,470
Halfords	9,791	6,157	9,936	6,327
Boots Properties	80	78	77	77
Boots Healthcare International	2,378	2,291	2,242	2,175
Boots Contract Manufacturing	4,021	3,823	4,155	4,077
Group Strategic Initiatives	194	175	–	–
Central	788	742	836	753
	84,695	55,007	85,516	56,302
Discontinued operation				
Do It All	–	–	1,878	1,260
Total	84,695	55,007	87,394	57,562

Total number of persons employed by continuing operations at 31st March 2000 was 85,115 heads, 54,650 full time equivalents (1999 83,369 heads, 54,603 full time equivalents).

The aggregate payroll cost was as follows:

	2000 £m	1999 £m
Wages and salaries	887.0	908.2
Social security costs	66.2	71.5
Other pension costs	6.9	6.4
	960.1	986.1
Analysed as:		
Continuing operations	960.1	965.3
Discontinued operation	–	20.8
	960.1	986.1

28 Remuneration of directors and directors' shareholdings

Details of the remuneration, shareholdings and share options of the directors are included in the board remuneration report on pages 32 to 37.

29 Related party disclosures

During the year the group had no material transactions with related parties.

There were transactions with joint ventures which were carried out at arm's length.

71 Principal companies

	Principal activities	Percentage held by parent	Percentage held by subsidiary undertakings	Country of incorporation where operating overseas
Parent				
The Boots Company PLC	Manufacturing, marketing and distribution of healthcare and consumer products			
Subsidiary undertakings (incorporated in Great Britain)				
BCM Ltd.	Manufacturing pharmaceuticals and consumer products	100		
Boots Development Properties Ltd.	Property development		100	
Boots Healthcare International Ltd.	Marketing consumer products	100		
Boots Opticians Ltd.	Registered opticians		100	
Boots Properties PLC	Property holding	100		
Boots The Chemists Ltd.	Retail chemists	100		
Crookes Healthcare Ltd.	Marketing consumer products	100		
Halfords Ltd.	Retailing of auto parts, accessories and bicycles and car servicing	100		
Optrex Ltd.	Marketing consumer products	100		
Subsidiary undertakings (incorporated overseas)				
	Activities refer to healthcare and/or consumer products unless otherwise indicated			
Boots Healthcare Australia Pty. Ltd.	Marketing	100		Australia
Boots Healthcare Products (Austria) GmbH	Marketing	100		Austria
Boots Healthcare SA NV	Marketing		100	Belgium
Boots Healthcare SA	Marketing		100	France
BCM Cosmétique SA	Manufacturing and marketing (M&M)	100		France
Laboratoires Lutsia SA	M&M		100	France
Roval SA	Manufacturing		100	France
BCM Kosmetik GmbH	M&M	100		Germany
Hermal Kurt Herrman oHG	M&M		100	Germany
Boots (Retail Buying) Ltd.	Buying	100		Hong Kong
Boots Piramal Healthcare Ltd.	Marketing	60		India
Boots Healthcare Ltd.	Marketing	100		Ireland
Boots Healthcare S.p.A.	M&M	100		Italy
Marco Viti Farmaceutici S.p.A.	M&M	100		Italy
BCM Italia S.p.A.	Marketing		100	Italy
The Boots Company Japan k.k.	Marketing	100		Japan
Boots Investments Ltd.	Investment company	100		Jersey
Boots Trading (Malaysia) Sdn. Bhd.	Marketing	100		Malaysia
Boots Healthcare BV	Marketing		100	Netherlands
Boots Healthcare New Zealand Ltd.	Marketing	100		New Zealand
The Boots Company (Philippines) Inc	Marketing	100		Philippines
Boots Healthcare Sp.z.o.o.	Marketing	100		Poland
Boots Healthcare Portugal – Produtos De Saúde LDA	Marketing		100	Portugal
The Boots Company (Far East) Pte. Ltd.	Marketing	100		Singapore
Boots Healthcare S.A.	Marketing	100		Spain
Boots Healthcare (Switzerland) AG	Marketing	100		Switzerland
The Boots Company (Thailand) Ltd.	Marketing	100		Thailand
Boots Retail (Thailand) Ltd.	Retail	49	51	Thailand
Joint Ventures				
handbag.com Ltd. (Jointly controlled with Hollinger Telegraph New Media Ltd.)	Internet	50		UK
Boots MC Company k.k. (Jointly controlled with Mitsubishi Corporation)	Retail	51		Japan

Percentages relate to holdings of ordinary share capital.

All companies operate principally in the country of incorporation.

Minority shareholders have equity and non-equity holdings in certain subsidiaries incorporated in Thailand and India.

72 Group financial record

Profit and loss account	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Turnover	5,187.0	5,044.6	5,021.9	4,578.0	4,124.7
Group operating profit before exceptional items	573.3	564.1	538.0	491.8	442.6
Share of operating loss of joint ventures	(8.4)	(1.7)	–	–	–
Total operating profit before exceptional items	564.9	562.4	538.0	491.8	442.6
Operating exceptional items	(22.0)	(76.3)	5.5	8.6	12.8
Total operating profit including joint ventures	542.9	486.1	543.5	500.4	455.4
Other exceptional items	12.9	(314.0)	(126.8)	26.3	1.4
Profit on ordinary activities before interest	555.8	172.1	416.7	526.7	456.8
Net interest	5.9	(1.8)	15.2	44.4	50.9
Profit on ordinary activities before taxation	561.7	170.3	431.9	571.1	507.7
Taxation	(162.5)	(146.3)	(169.2)	(178.3)	(167.1)
Profit on ordinary activities after taxation	399.2	24.0	262.7	392.8	340.6
Minority interests	(0.2)	(0.1)	1.3	0.5	–
Profit attributable to shareholders	399.0	23.9	264.0	393.3	340.6
Dividends	(221.7)	(214.5)	(203.4)	(586.1)	(176.4)
Profit/(loss) retained	177.3	(190.6)	60.6	(192.8)	164.2

Total recognised gains and losses	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Profit attributable to shareholders	399.0	23.9	264.0	393.3	340.6
(Deficit)/surplus on revaluation of properties	(3.3)	(1.4)	(1.4)	27.1	16.0
Impairment losses on revalued assets	(1.1)	(1.7)	–	–	–
Currency translation differences	(6.6)	3.0	(13.7)	(10.4)	3.3
Other net gains	–	0.4	–	0.3	–
Recognised gains and losses for the year	388.0	24.2	248.9	410.3	359.9

Movements in shareholders' funds	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Recognised gains and losses for the year	388.0	24.2	248.9	410.3	359.9
Dividends	(221.7)	(214.5)	(203.4)	(586.1)	(176.4)
New share capital subscribed	0.5	8.8	11.8	7.7	9.1
Repurchase of shares	(95.4)	–	–	(300.0)	–
Goodwill relating to acquisitions prior to 1st April 1998	–	(1.4)	(189.3)	(124.5)	(8.7)
Goodwill released on disposal of businesses	–	312.2	121.5	4.4	0.1
Scrip dividends	–	–	27.8	8.3	10.6
Increase/(decrease) in shareholders' funds	71.4	129.3	17.3	(579.9)	194.6

73 Group financial record

Balance sheet	2000	1999	1998	1997	1996
	£m	£m	£m	£m	£m
Fixed assets	1,861.3	1,853.0	1,694.2	1,803.5	1,651.0
Investments	141.2	112.4	2.6	0.5	46.4
Net current assets	367.0	71.2	264.2	184.4	700.3
Other creditors	(489.2)	(230.7)	(258.6)	(274.9)	(150.5)
Provisions for liabilities and charges	(26.8)	(25.3)	(51.5)	(80.0)	(33.7)
Net assets	1,853.5	1,780.6	1,650.9	1,633.5	2,213.5
Represented by:					
Shareholders' funds	1,851.6	1,780.2	1,650.9	1,633.6	2,213.5
Minority interests	1.9	0.4	–	(0.1)	–
	1,853.5	1,780.6	1,650.9	1,633.5	2,213.5

Cash flow statement	2000	1999	1998	1997	1996
	£m	£m	£m	£m	£m
Cash inflow from operating activities	753.7	601.9	605.6	515.1	536.5
Returns on investment and servicing of finance	(9.8)	(24.9)	(10.5)	39.1	16.2
Taxation	(154.4)	(112.4)	(232.8)	(174.4)	(152.7)
Capital expenditure and financial investment	(221.0)	(458.5)	9.1	(169.6)	(197.3)
Acquisitions and disposals	(2.6)	55.2	(190.4)	(40.4)	(48.4)
Equity dividends paid	(216.3)	(207.1)	(563.3)	(169.8)	(154.4)
Cash flow before use of liquid resources and financing	149.6	(145.8)	(382.3)	–	(0.1)
Management of liquid resources	(283.6)	122.8	371.9	288.5	122.8
Financing	172.8	28.2	(8.8)	(258.1)	(125.4)
Increase/(decrease) in cash	38.8	5.2	(19.2)	30.4	(2.7)

Statistics	2000	1999	1998	1997	1996
Sales growth from continuing operations	5.6%	5.9%	11.7%	13.8%	5.8%
Return on shareholders' funds before exceptional items	22.6%	23.7%	23.6%	16.3%	16.4%
Earnings per share	45.0p	2.6p	29.0p	42.9p	35.8p
Earnings per share before exceptional items	45.4p	42.9p	42.6p	39.5p	34.7p
Net (debt)/funds (£m)	(237.6)	(294.8)	(149.4)	229.5	526.2
Capital expenditure (£m)	252.8	369.4	276.6	226.9	239.7

Return on shareholders' funds is calculated as profit on ordinary activities before exceptional items and after taxation as a percentage of opening shareholders' funds.

Shareholder value	2000	1999	1998	1997	1996
Dividend per share	25.2p	23.8p	22.3p	64.7p	18.5p
Dividend cover before exceptional items	1.8	1.8	1.9	0.6	1.9
Share price:					
Highest	884p	1070p	963p	701p	627p
Lowest	457p	836p	676p	555p	500p

74 Segmental financial record – continuing operations

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Turnover, including inter-segmental turnover:					
Boots The Chemists	3,978.8	3,823.1	3,573.7	3,313.5	3,107.6
Boots Retail International – group	30.2	15.8	5.2	–	–
– share of joint venture	2.3	–	–	–	–
Boots Opticians	195.7	194.3	182.9	148.1	132.3
Halfords	492.6	457.3	435.0	412.8	390.5
Boots Properties – Development	45.9	4.8	49.4	0.5	7.0
– Investment	93.6	91.5	100.2	101.6	95.9
Boots Healthcare International	327.1	308.4	273.7	243.4	206.7
Boots Contract Manufacturing	321.1	309.8	314.9	259.5	239.4
handbag.com - share of joint venture	0.1	–	–	–	–
Group Strategic Initiatives	2.4	–	–	–	–
Operating profit before operating exceptional items:					
Boots The Chemists	491.6	461.8	443.8	426.5	384.8
Boots Retail International – group	(27.1)	(19.2)	(21.2)	(8.5)	(1.1)
– share of joint venture	(5.5)	(1.7)	–	–	–
Boots Opticians	11.2	14.5	17.0	13.8	10.9
Halfords	45.2	40.3	34.2	26.8	22.1
Boots Properties – Development	2.5	(0.2)	8.8	–	1.8
– Investment	59.8	65.4	67.2	72.1	66.4
Boots Healthcare International	24.0	15.3	1.2	(6.6)	(8.2)
Boots Contract Manufacturing	25.2	24.3	24.7	19.7	16.7
handbag.com - share of joint venture	(2.9)	–	–	–	–
Group Strategic Initiatives	(17.7)	(0.8)	–	–	–
Capital expenditure:					
Boots The Chemists	125.7	251.4	146.9	88.3	86.1
Boots Retail International	11.2	9.0	4.8	1.1	–
Boots Opticians	7.8	10.4	7.8	8.9	11.2
Halfords	20.6	15.5	14.9	12.3	14.5
Boots Properties	64.4	52.6	61.6	63.8	75.1
Boots Healthcare International	5.1	8.4	7.4	11.0	12.5
Boots Contract Manufacturing	18.0	20.5	26.5	31.4	29.5

75 Shareholder information

Annual general meetings

The annual general meeting will be held at 11.00 am on Thursday, 27th July 2000 at the Royal Concert Hall, Theatre Square, Nottingham NG1 5ND. Each shareholder is entitled to attend and vote at the meeting, the arrangements for which are described in a separate notice.

The proposed date of the annual general meeting next year is 26th July 2001.

Dividend payments

The proposed final dividend (if approved) will be paid on 18th August 2000 to shareholders registered on 16th June 2000. Most shareholders (excluding those in Canada and the USA) will have the opportunity to reinvest their cash dividend in existing shares bought on the London Stock Exchange through a dividend reinvestment plan. All applications to join that plan or amend existing instructions under it must be received by the company's registrars by 5.00 pm on 28th July 2000.

The expected dividend payment dates for the year to 31st March 2001 are:

Interim dividend	February 2001
Final dividend	August 2001

Results

For the year to 31st March 2001:

Interim results announced	November 2000
Interim statement circulated	November 2000
Preliminary announcement of full year results	May 2001
Annual report circulated	June 2001

Capital gains tax

For capital gains tax purposes, the market price of the company's ordinary shares of 25p each on 31st March 1982 was 112.5p.

Low cost share dealing services

Details of special low cost dealing services in the company's shares may be obtained from:

- **Hoare Govett Limited** (telephone 0207 678 8000) Hoare Govett is regulated by the Securities and Futures Authority.
- **Natwest Stockbrokers Limited** (telephone 0207 895 5489) a member of the London Stock Exchange and regulated by the Securities and Futures Authority.

Both Hoare Govett Limited and Natwest Stockbrokers Limited have approved the references to them for the purposes of section 57 of the Financial Services Act 1986.

Registrar and transfer office

Computershare Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH. Telephone 0870 702 0148.

Company secretary and registered office

M J Oliver; The Boots Company PLC, Nottingham NG2 3AA. Telephone 0115 950 6111.

The Boots Company PLC is registered in England and Wales (No. 27657).

Analysis of shareholders at 31st March 2000

Shareholding range	Number	%	Total holding	%
1–500	55,293	38.54	13,545,739	1.51
501–1,000	34,977	24.38	26,706,869	2.97
1,001–10,000	50,243	35.02	127,837,540	14.21
10,001–100,000	2,372	1.66	58,353,312	6.49
100,001–1,000,000	449	0.31	135,842,703	15.11
Over 1,000,000	133	0.09	537,020,152	59.71
	143,467	100.00	899,306,315	100.00