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25/Corporate governance

Requirements of corporate governance are set out by the Financial Services Authority (FSA) Listing Rules together with the related Principles of Good Governance and Code of Best Practice (the 'Combined Code'), now adopted by the FSA.

Directors are assisted in complying with the internal control requirements of the Combined Code by the Institute of Chartered Accountants in England and Wales' publication 'Internal Control: Guidance for Directors on the Combined Code' (the 'Turnbull guidance').

The board has reviewed the group's corporate governance policies and practice and has determined that the company complied with the provisions of the Combined Code throughout the period with one exception. The board has determined that executive directors appointed prior to 1st April 1999 should have a service contract terminable by the company on two years' notice. Those appointed after that date have a service contract terminable on 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. Mr S G Russell is now the only director with a rolling two years' service contract.

Board composition

Details of the board of directors are shown on pages 22 and 23 and in the directors' report on page 37. During the year there was a clear division of responsibilities at the head of the company, with Lord Blyth as chairman until he retired on 31st July 2000 when Mr J B McGrath took over his responsibilities. Mr S G Russell has been chief executive of the company throughout the year. During the year, Sir Michael Angus, Sir Peter Reynolds, Mr M F Ruddell and Sir Clive Whitmore retired from the board. Mme H Ploix and Mr K S Piggott were appointed to the board during the year and Mr A P Smith joined the board on 1st April 2001. After these changes the board comprises six executive directors and six non-executive directors.

The board considers all of its non-executive directors to be independent, Sir Nigel Rudd being identified as the senior independent director following the retirement of Sir Michael Angus.

The board 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 and the personnel director, reports on the performance of the businesses, 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 receive presentations from management about key areas of the group'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 group 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

J B McGrath (chairman)
Dr J G S Buchanan
F M Harrison
H Ploix
Dr M P Read
Sir Nigel Rudd

The board nominations committee meets as dictated by circumstances and met three 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.

Board audit committee

Dr J G S Buchanan (chairman)
F M Harrison
H Ploix
Dr M P Read
Sir Nigel Rudd

The board audit committee met four 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, to set the risk assurance audit plan and to receive regular reports on internal 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 Nigel Rudd (chairman)
Dr J G S Buchanan
F M Harrison
J B McGrath
H Ploix
Dr M P Read

The board remuneration committee met six 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 28 to 33.

Board social responsibilities committee

F M Harrison (chairman)
Dr M P Read
A P Smith

The board social responsibilities committee met once 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, or for those who have elected for electronic communication, notice is given to such shareholders of the availability of papers on the company's website. 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.

Internal control

The directors have overall responsibility for the group's system of internal control. The system of internal control is designed to manage, rather than eliminate, the risk of failure to the achievement of business objectives. Such a system can, however, provide only reasonable, and not absolute, assurance against material misstatement or loss.

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 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.

The group 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. Operating expenditure is controlled within each business with approval levels for such expenditure being determined by the individual businesses.

Executive management are responsible for the identification, evaluation and management of the significant risks applicable to their areas of business. These risks are assessed on a regular basis and may be associated with a variety of internal or external sources. This continuous process has been in place for the year ended 31st March 2001 and up to the date of approval of the Annual Report and Accounts.

Annually, businesses provide certified statements of compliance with the group's system of internal control, which are supported by assessments of key business risks, controls and resulting exposures.

The group risk assurance function (encompassing internal audit) works throughout the group to further develop, improve and embed risk management processes and tools in the business operations. It also provides assurance to the board that risk management practices address the key risks faced by the group. Its work includes an assessment of the risks and controls throughout the group and its findings are reported to senior management responsible for the area concerned. Group risk assurance also reports regularly to the audit committee.

The audit committee assists the board in fulfilling its oversight responsibilities, primarily reviewing the reporting of financial and non-financial information to shareholders, the systems of internal control and risk management, and the audit process. The external auditors and the head of group risk assurance attend all meetings.

The group's system of internal control is monitored regularly by the board, its committees, the group risk assurance function, and management.

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.

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 26.

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. Changes in executive director's remuneration, for which approval is being sought at the annual general meeting, will increase that alignment through the whole of the long term bonus being paid in shares and with the introduction of a share option plan. Moreover, the remuneration committee has adopted a policy of requiring directors over time to achieve a holding in the company's shares having a value equivalent to their salary.

Directors' remuneration

Analysis of emoluments, long term bonuses and gains on share options are shown on pages 29 to 32. Details of shareholdings and outstanding share options are shown on page 32 and pension entitlements on page 33.

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 2000/01, 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 22% 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. Executive directors and senior managers will not participate in such bonus schemes after 31st March 2001.

Other benefits 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 2001	Total 2000
Sir Michael Angus (deputy chairman until retirement on 31st December 2000)	71	–	–	71	95
Lord Blyth (chairman until retirement on 31st July 2000)	289	49	–	338	772
Dr J G S Buchanan	30	–	–	30	30
B Clare	275	67	13	355	275
Sir Peter Davis (retired on 21st January 2000)	–	–	–	–	24
F M Harrison	30	–	–	30	30
J B McGrath (chairman from 1st August 2000)	143	–	4	147	30
K S Piggott (from 1st April 2000)	300	72	10	382	–
H Ploix (from 7th September 2000)	17	–	–	17	–
Dr M P Read (from 23rd September 1999)	30	–	–	30	16
Sir Peter Reynolds (retired on 27th July 2000)	10	–	–	10	30
Sir Nigel Rudd (from 15th December 1999)	36	–	–	36	9
M F Ruddell (retired from the board on 31st March 2001)	300	72	14	386	348
S G Russell	500	116	16	632	462
D A R Thompson	450	105	16	571	469
J J H Watson	240	59	13	312	282
Sir Clive Whitmore (retired on 31st March 2001)	30	–	–	30	30
	2,751	540	86	3,377	2,902

Long term bonus schemes The schemes provide a direct link between the pay of executive directors and the creation of value for shareholders. Currently group 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.

The peer group is reviewed before each performance cycle to maintain its relevance. At the end of the cycle for the period up to 31st March 2001 the relevant peer group was:

Alliance UniChem	Reckitt Benckiser
Debenhams	J Sainsbury
Great Universal Stores	Smith & Nephew
Kingfisher	Tesco
Marks & Spencer	W H Smith

For the four year cycle which ended on 31st March 2001 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	Nil	Nil	Nil	Nil

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 2001, 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 which commenced in 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.

Approval is being sought at the annual general meeting to:

- a) amend the rules for the long term bonus schemes to:
 - reduce future performance periods from four to three years.
 - pay out the award in respect of future performance periods entirely as a share award.
 - remove the requirement of a holding period.
- b) establish a new executive share option plan to supplement the existing long term bonus scheme. This will encourage executives to identify their interests with those of shareholders and will be an effective incentive and an important element in the remuneration package of the executives.

31/Board remuneration report

In respect of the four year period to 31st March 2001, the company achieved position nine in the league table referred to on page 30. Accordingly no long term bonus was earned in respect of that period by executive directors. Shares conditionally awarded in respect of prior periods have, however, vested in the year. The amounts earned including those relating to periods of service before appointment to the board, were as follows:

£000	Cash	Value of vested shares	Total 2001	Total 2000
Lord Blyth	–	–	–	155
B Clare	–	21	21	38
K S Piggott	–	23	23	–
M F Ruddell	–	49	49	68
S G Russell	–	52	52	87
D A R Thompson	–	58	58	88
J J H Watson	–	25	25	51
	–	228	228	487

The value of the vested shares is based on the middle market price on the date of vesting of the share awards.

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 for prior periods are shown below along with those shares that vested in the year and the cumulative total of shares outstanding at 31st March, or date of retirement:

	Conditional entitlement 2001	Conditional entitlement 2000	Conditional entitlement 1999	Conditional entitlement 1998	Vested 2001	Cumulative total
Lord Blyth	31,833	21,992	15,956	22,263	(92,044)**	–
B Clare	7,757	4,621	3,221	4,190	(4,190)	15,599
K S Piggott	6,437	4,570	3,251	4,413	(4,413)	14,258
M F Ruddell	13,905	9,552	6,991	9,525	(9,525)	30,448*
S G Russell	17,858	11,200	7,652	9,570	(9,570)	36,710
D A R Thompson	18,140	12,072	8,538	11,475	(11,475)	38,750
J J H Watson	10,525	6,377	4,242	4,876	(4,876)	21,144
	106,455	70,384	49,851	66,312	(136,093)	156,909

*at date of retirement

** vested after ceasing to be a director

Part of Mr B Clare's and all of Mr K S Piggott's cumulative entitlements accrued before they were appointed to the board on 1st April 1999 and 1st April 2000 respectively.

32/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 2001 £000	Gain 2000 £000
	415p	831	503p	1	
	482p	7,500	525p	3	
	531p	5,000	625p	5	
K S Piggott				9	2
M F Ruddell	410p	841	511p	1	–
S G Russell				–	12
Total				10	14

Directors' shareholdings and share options

The beneficial interests of the directors in office at 31st March 2001 and their families in the share capital of the company at 31st March 2001 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 2001	Ordinary shares 2000
Dr J G S Buchanan	2,000	2,000
B Clare	8,209	5,658
F M Harrison	3,061	3,061
J B McGrath	2,731	2,611
K S Piggott	46,620	43,162*
H Ploix	1,600	–*
Dr M P Read	3,500	3,500
Sir Nigel Rudd	2,000	2,000
S G Russell	56,087	50,551
D A R Thompson	86,226	79,177
J J H Watson	55,269	52,393

*at date of appointment

Each executive director was also deemed, as a potential beneficiary, to have an interest in the 1,967,878 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 16,525,264 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 and 1,666,724 ordinary shares of the company held by Boots Share Plan Trustees Limited, established to hold shares for employees in connection with The Boots Company All Employee Share Ownership Plan 2000. No director holds any loan capital. The personal shareholdings of directors in office at 31st March 2001 remain unchanged on 31st May 2001, but the number of shares held by Boots (QUEST) Trustee Limited, the Boots ESOP Trust Ltd and the All Employee Share Option Plan have reduced, thereby reducing directors' deemed interest.

All Employee Share Option Plan (AESOP)

During the period Boots established an AESOP as a new way for staff, including executive directors, to become shareholders in the company. The company's SAYE scheme, which whilst remaining in force, made no new offers in the period. Under the plan shares in the AESOP are held in trust on behalf of the employees for at least three years. In March 2001 the executive directors were each awarded 42 shares under this plan, the same number as any employee with average contracted hours of 35 or more per week. All the executive directors except for Mr D A R Thompson opted to receive this award.

Share options

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

Under SAYE scheme	485p	588p	808p	624p	2001 Total	2000 Total
B Clare	3,216	–	–	–	3,216	3,216
K S Piggott	426	1,173	341	324	2,264	3,095*
S G Russell	–	–	–	2,704	2,704	2,704
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 K S Piggott exercised SAYE options in respect of 831 shares.

No executive options were held by directors at 31st March 2001. Mr K S Piggott held 12,500 executive options on appointment to the board and those options were exercised during the year.

33/Board remuneration report

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 2001 was 627p and the range of market prices during the year was 649p to 479p.

Directors' interests in share options on 31st May 2001 remain unchanged.

Pension entitlement

All executive directors in office at 31st March 2001 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. Pension entitlement is calculated only on the salary element of remuneration.

Details of pensions earned by the executive directors in office at 31st March 2001 or at date of retirement are shown below:

	Age at 31st March 2001	Directors' contributions during the year £000	Increase in accrued pension entitlement during the year £000	Total accrued pension entitlement at 31st March 2001 £000
Lord Blyth	–	10	5	392*
B Clare	48	13	22	81
K S Piggott	52	14	63	157
M F Ruddell	57	14	16	185*
S G Russell	56	24	74	294
D A R Thompson	58	21	48	286
J J H Watson	59	11	14	158

*at date of retirement

The total accrued pension entitlement for Mr S G Russell, the highest paid director, at 31st March 2000 was £213 thousand.

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 retired as a director on 31st July 2000. Mr J B McGrath succeeded him as chairman.

The previous chairman had a fixed term service contract with the company which expired at normal retirement age of 60, on 8th May 2000. The current chairman, Mr J B McGrath, has an agreement with the company relating to his services as chairman, which is terminable by either party without notice. None of the non-executive directors has a service contract, including Dr J G S Buchanan, Ms F M Harrison and Mme H Ploix, who are standing for reappointment as directors at the annual general meeting.

All executive directors' service contracts terminate when the director in question reaches the age of 60.

Mr B Clare's and Mr K S Piggott's service contracts are terminable by the company on one year's notice. Mr A P Smith, who was appointed to the board on 1st April 2001, 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. Mr J J H Watson's and Mr D A R Thompson's contracts expire at normal retirement age, 60, on 3rd July 2001 and 4th September 2002 respectively. Mr S G Russell has a service contract which is terminable by the company on two years' notice. Mr A P Smith and Mr D A R Thompson are standing for reappointment at the annual general meeting. 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.

34/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.

We have audited the financial statements on pages 38 to 67.

Respective responsibilities of directors and auditors The directors are responsible for preparing the Annual Report. As described on page 34, 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 group is not disclosed.

We review whether the statement on pages 25 to 27 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 group'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 audit 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 2001 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
30th May 2001

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 2001.

Principal activities

The group's principal activities during the year were:

- retailing of chemists' merchandise and autoparts.
- the provision of opticians' and other healthcare 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 in the review of operations on pages 4 to 17.

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, chief executive's review and review of operations on pages 1 to 17.

Group results

The group profit and loss account for 2001 shown on page 38 includes the following details:

	2001 £m	2000 £m
Turnover (including share of joint ventures)	5,226.2	5,189.4
Profit on ordinary activities before exceptional items and taxation	581.1	570.8
Profit on ordinary activities before taxation	492.2	561.7

Appropriations

The directors recommend the payment of a final dividend of 18.5p per share which, if approved by shareholders, will be paid on 17th August 2001 to shareholders registered on 15th June 2001. When added to the interim dividend of 7.8p paid on 2nd February 2001, this makes a total dividend payment for the year of 26.3p per share (2000 25.2p per share). Payment of these dividends requires £231.6m (2000 £221.7m), leaving a profit of £101.6m (2000 £177.3m) retained in the business.

Group structure

On 15th August 2000, following a strategic review of its Dutch retail operation, an agreement was signed by Boots Stores Nederland B.V. with Etos, part of Royal Ahold, the Netherlands' largest retail group, to transfer its property leases, stocks, assets and employees to them on 6th November 2000.

On 12th October 2000, Boots and Granada Media plc announced the formation of a new independent internet and broadband joint venture designed to be Britain's leading e-business for health, beauty and wellbeing.

On 17th October 2000, Boots Healthcare USA Inc. and Hermal, both indirect subsidiaries of the company, acquired the Clearasil brand from Procter & Gamble. Clearasil is the world's leading brand in acne prevention and treatment.

On 12th December 2000, The Centre for the Study of Complementary Medicine, one of the UK's leading complementary health centres was acquired.

On 2nd February 2001, Marco Viti, part of the Italian over the counter (OTC) business, was sold to Italian pharmaceuticals company, Zeta.

On 30th March 2001, Portland Ceramics Limited, one of the UK's leading dental laboratories was acquired, strengthening Boots ability to meet increasing patient demand for dental implants and other specialist services.

On 26th April 2001, Boots completed the sale of Roval, a private label manufacturing business in France and Spain, to the existing Roval management team.

Share capital

Details of changes in the share capital are shown in note 22 to the financial statements on page 63.

At the annual general meeting on 27th July 2000, shareholders authorised the company to make market purchases of its own ordinary shares of 25p each. No such purchases were made during the year.

At the forthcoming annual general meeting on 26th July 2001, 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 acquired by Boots Qualifying Employee Share Trust, Boots All Employee Share Option Plan and Boots ESOP Trust are shown in note 12.

Shareholders

As at 30th May 2001 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 3.99% of the issued ordinary share capital of the company.

Fixed assets

The directors are of the opinion that the market value of the group's properties at 31st March 2001 is 9% higher than that stated in the financial statements. It is not anticipated that any significant taxation will become payable on the revaluation surplus, as taxation gains on properties used for the purpose of the group's trade is expected to be deferred indefinitely or eliminated by capital losses.

Payment of suppliers

The group is a signatory of the Confederation of British Industry's Prompt Payment Code. It is the policy of the group 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 2001 was 28.

Staff

The group 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 group'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 group 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

Cash donations for charitable and educational purposes in the UK for the year were £2.9m (2000 £2.8m). There were no political payments. Further information on community relations is shown on page 16.

Directors

Details of directors are shown on pages 22 and 23. Lord Blyth and Sir Peter Reynolds were directors until their retirement from the board on 31st July 2000 and 27th July 2000 respectively. Mr M F Ruddell and Sir Clive Whitmore were directors until their retirement from the board on 31st March 2001.

Dr J G S Buchanan, Ms F M Harrison and Mr D A R Thompson retire by rotation at the annual general meeting in accordance with Article 87 and offer themselves for reappointment.

Mme H Ploix and Mr A P Smith who were appointed as directors on 7th September 2000 and 1st April 2001 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 2001 are shown in the board remuneration report on pages 28 to 33.

Mr J J H Watson is retiring as a director of the company after the annual general meeting on 26th July 2001.

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

M J Oliver

Secretary

30th May 2001

38/Group profit and loss account

For the year ended 31st March 2001	Notes	Before exceptional items 2001 £m	Exceptional items (note 3) 2001 £m	Total 2001 £m	Before exceptional items 2000 £m	Exceptional items (note 3) 2000 £m	Total 2000 £m
Turnover: group and share of joint ventures	1	5,226.2	–	5,226.2	5,189.4	–	5,189.4
Less: share of joint ventures' turnover		(5.3)	–	(5.3)	(2.4)	–	(2.4)
Group turnover		5,220.9	–	5,220.9	5,187.0	–	5,187.0
Group operating profit		603.1	(50.5)	552.6	573.3	(22.0)	551.3
Share of operating loss of joint ventures		(23.1)	–	(23.1)	(8.4)	–	(8.4)
Total operating profit including joint ventures	2	580.0	(50.5)	529.5	564.9	(22.0)	542.9
Profit on disposal of fixed assets		–	3.2	3.2	–	12.9	12.9
Loss on disposal of businesses	4	–	(41.6)	(41.6)	–	–	–
Profit on ordinary activities before interest	1	580.0	(88.9)	491.1	564.9	(9.1)	555.8
Net interest	5	1.1	–	1.1	5.9	–	5.9
Profit on ordinary activities before taxation		581.1	(88.9)	492.2	570.8	(9.1)	561.7
Tax on profit on ordinary activities	6	(171.9)	13.1	(158.8)	(168.8)	6.3	(162.5)
Profit on ordinary activities after taxation		409.2	(75.8)	333.4	402.0	(2.8)	399.2
Equity minority interests		(0.2)	–	(0.2)	(0.2)	–	(0.2)
Profit for the financial year attributable to shareholders	7	409.0	(75.8)	333.2	401.8	(2.8)	399.0
Dividends paid and proposed	8			(231.6)			(221.7)
Profit retained				101.6			177.3
Basic earnings per share	9	46.6p	(8.7)p	37.9p	45.4p	(0.4)p	45.0p
Diluted earnings per share	9	46.4p	(8.6)p	37.8p	45.1p	(0.3)p	44.8p

39/Other primary statements of the group

Statement of total recognised gains and losses

For the year ended 31st March 2001

	2001 £m	2000 £m
Profit for the financial year attributable to shareholders	333.2	399.0
Deficit on revaluation of properties	(1.8)	(3.3)
Impairment losses on revalued assets	(0.1)	(1.1)
Currency translation differences on foreign currency net investments	6.1	(6.6)
Total recognised gains and losses for the year	337.4	388.0

Currency translation differences include tax of £7.6m (2000 £(0.4)m).

Currency translation differences are net of gains or losses on currency hedges of £(3.1)m (2000 £Nil) and associated tax credit of £1.2m (2000 £Nil).

Note on historical cost profits and losses

For the year ended 31st March 2001

	2001 £m	2000 £m
Reported profit on ordinary activities before taxation	492.2	561.7
Realisation of property revaluation surpluses	6.3	4.9
Difference between historical cost depreciation charge and actual charge for the year calculated on revalued amounts	2.9	0.5
Historical cost profit on ordinary activities before taxation	501.4	567.1
Historical cost profit retained	110.8	182.7

Reconciliation of movements in shareholders' funds

For the year ended 31st March 2001

	2001 £m	2000 £m
Total recognised gains and losses for the year	337.4	388.0
Dividends	(231.6)	(221.7)
New share capital issued (net of expenses)	0.9	0.5
Repurchase of shares	–	(95.4)
Goodwill released on disposal of businesses	17.9	–
Net increase in shareholders' funds	124.6	71.4
Opening shareholders' funds	1,851.6	1,780.2
Closing shareholders' funds	1,976.2	1,851.6

40/Balance sheets

31st March 2001	Notes	Group 2001 £m	Group 2000 £m	Parent 2001 £m	Parent 2000 £m
Fixed assets					
Intangible assets	10	304.6	62.3	1.2	2.2
Tangible assets	11	1,812.8	1,799.0	575.7	609.9
Investment in joint ventures – share of gross assets		27.3	9.2		
– share of gross liabilities		(6.7)	(1.2)		
	12	20.6	8.0	48.4	14.8
Other investments	12	120.1	133.2	2,017.8	1,768.5
		2,258.1	2,002.5	2,643.1	2,395.4
Current assets					
Stocks	13	646.7	689.5	195.8	198.2
Debtors falling due within one year	14	463.7	404.5	1,149.4	229.8
Debtors falling due after more than one year	14	34.1	4.0	377.4	409.4
Current asset investments and deposits	15	74.0	379.2	47.0	357.9
Cash at bank and in hand		74.0	43.0	79.7	48.1
		1,292.5	1,520.2	1,849.3	1,243.4
Creditors: Amounts falling due within one year	16	(1,082.0)	(1,153.2)	(993.4)	(1,360.7)
Net current assets/(liabilities)		210.5	367.0	855.9	(117.3)
Total assets less current liabilities		2,468.6	2,369.5	3,499.0	2,278.1
Creditors: Amounts falling due after more than one year	17	(451.9)	(489.2)	(1,264.0)	(767.5)
Provisions for liabilities and charges	20	(39.8)	(26.8)	(9.6)	–
Net assets		1,976.9	1,853.5	2,225.4	1,510.6
Capital and reserves					
Called up share capital	21, 22	224.9	224.8	224.9	224.8
Share premium account	21	253.3	252.5	253.3	252.5
Revaluation reserve	21	255.8	266.9	–	–
Capital redemption reserve	21	40.8	40.8	40.8	40.8
Profit and loss account	21	1,201.4	1,066.6	1,706.4	992.5
Equity shareholders' funds		1,976.2	1,851.6	2,225.4	1,510.6
Equity minority interests		0.6	0.5	–	–
Non-equity minority interests		0.1	1.4	–	–
		1,976.9	1,853.5	2,225.4	1,510.6

The financial statements were approved by the board of directors on 30th May 2001 and are signed on its behalf by:

John McGrath

Chairman

David Thompson

Deputy Chief Executive and Finance Director

41/Group cash flow information

Reconciliation of operating profit to operating cash flows

For the year ended 31st March 2001	Notes	2001 £m	2000 £m
Group operating profit before exceptional items		603.1	573.3
Depreciation, amortisation and impairments of fixed assets		159.9	154.4
Permanent diminution – QUEST		0.8	9.8
Loss on disposal of fixed assets		7.0	9.6
Decrease in stocks, including property development stock		27.8	30.4
Increase in debtors, including pension prepayments		(102.4)	(8.3)
Increase in creditors		1.7	4.8
Other non-cash movements		(4.3)	(1.0)
Net cash inflow before expenditure relating to exceptional items		693.6	773.0
Exceptional operating cash flows	23	(29.2)	(19.3)
Cash inflow from operating activities		664.4	753.7

Group cash flow statement

For the year ended 31st March 2001	Notes	2001 £m	2000 £m
Cash inflow from operating activities		664.4	753.7
Returns on investment and servicing of finance	23	(22.6)	(9.8)
Taxation		(167.4)	(154.4)
Capital expenditure and financial investment	23	(405.0)	(221.0)
Acquisitions and disposals	4	(32.7)	(2.6)
Equity dividends paid		(224.0)	(216.3)
Cash (outflow)/inflow before use of liquid resources and financing		(187.3)	149.6
Management of liquid resources	23	305.2	(283.6)
Financing	23	(71.4)	172.8
Increase in cash		46.5	38.8

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 2001	Notes	2001 £m	2000 £m
Increase in cash		46.5	38.8
Cash (inflow)/outflow from change in liquid resources	23, 24	(305.2)	283.6
Cash outflow/(inflow) from change in borrowings and lease financing	23, 24	72.3	(267.7)
Movement in net debt resulting from cash flows		(186.4)	54.7
Loan notes issued as settlement for acquisition		(1.6)	–
Borrowings of business disposed		3.3	–
Finance lease additions		(7.3)	(4.1)
Increase in value of investment in 10.125% bond 2017		19.9	18.2
Currency and other non-cash adjustments		(0.5)	(11.6)
Movement in net debt during the year		(172.6)	57.2
Opening net debt		(237.6)	(294.8)
Closing net debt	24	(410.2)	(237.6)

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

42/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 52.

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

There have been no changes in accounting policies since the previous annual report. The Accounting Standards Board have issued a number of new reporting standards which are not effective for this financial year and therefore have no impact on these financial statements.

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.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of 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, except where hedge accounting applies in which case the year end rate is used.

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 except where the end of the useful economic lives of the acquired intangible asset can be reasonably foreseen. 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 instalments 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 including software – 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 fixed assets is recognised immediately.

The company adopted the transitional provisions of FRS 15 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.

Investment properties are revalued annually and included in the balance sheet at their open market value (adjusted to exclude the benefit of formal lease arrangements with group companies).

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).

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money managed funds.

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 FRS 13 'Derivatives and other Financial Instruments: Disclosures', as detailed in note 19 to the financial statements on pages 59 and 60.

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.

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.

1 Segmental information**(i) Turnover by business segment**

Notes	Total 2001 £m	Inter- segmental 2001 £m	External 2001 £m	Total 2000 £m	Inter- segmental 2000 £m	External 2000 £m
Continuing operations						
Boots The Chemists	3,991.5	–	3,991.5	3,978.8	–	3,978.8
Boots Retail International						
– group	37.4	–	37.4	30.2	–	30.2
– share of joint venture	4.7	–	4.7	2.3	–	2.3
Boots Opticians	196.1	–	196.1	195.7	–	195.7
Halfords	508.5	0.4	508.1	492.6	0.6	492.0
Boots Properties	a 89.7	80.4	9.3	139.5	81.1	58.4
Boots Healthcare International	362.0	20.5	341.5	327.1	20.0	307.1
Boots Contract Manufacturing	326.9	199.7	127.2	321.1	198.7	122.4
Group Strategic Initiatives						
– Internet Ventures						
– Digital Wellbeing – share of joint venture	0.1	–	0.1	–	–	–
– handbag.com – share of joint venture	0.5	–	0.5	0.1	–	0.1
– other, including bootsphoto.com	1.3	–	1.3	0.5	–	0.5
– Wellbeing Services	8.5	–	8.5	1.9	–	1.9
	5,527.2	301.0	5,226.2	5,489.8	300.4	5,189.4

a Boots Properties' turnover includes development income of £0.6m (2000 £45.9m).

(ii) Turnover by geographical segment

	Origin 2001 £m	Origin 2000 £m	Destination 2001 £m	Destination 2000 £m
Continuing operations				
UK	4,851.2	4,863.2	4,783.7	4,788.2
Rest of Europe	301.8	283.5	317.9	304.3
Rest of World	106.9	79.2	124.6	96.9
Inter-segmental	(33.7)	(36.5)	–	–
	5,226.2	5,189.4	5,226.2	5,189.4

1 Segmental information continued**(iii) Profit before interest by business segment**

	Notes	Before exceptional items 2001 £m	Exceptional items (note 3) 2001 £m	Total 2001 £m	Before exceptional items 2000 £m	Exceptional items (note 3) 2000 £m	Total* 2000 £m
Continuing operations							
Boots The Chemists		526.1	(13.7)	512.4	491.6	(22.0)	469.6
Boots Retail International							
– group		(33.4)	(23.1)	(56.5)	(27.6)	–	(27.6)
– share of joint venture		(10.5)	–	(10.5)	(5.5)	–	(5.5)
Boots Opticians		4.0	–	4.0	11.2	–	11.2
Halfords		37.0	–	37.0	45.2	–	45.2
Boots Properties	a	56.0	0.2	56.2	62.3	12.6	74.9
Boots Healthcare International		49.2	(15.1)	34.1	24.0	–	24.0
Boots Contract Manufacturing		35.2	(34.0)	1.2	25.2	–	25.2
Group Strategic Initiatives	b						
– Internet Ventures							
– Digital Wellbeing – share of joint venture		(8.9)	–	(8.9)	–	–	–
– handbag.com – share of joint venture		(3.7)	–	(3.7)	(2.9)	–	(2.9)
– other, including bootsphoto.com		(9.5)	–	(9.5)	(4.0)	–	(4.0)
– Wellbeing Services		(20.7)	–	(20.7)	(13.2)	–	(13.2)
Group costs		(40.8)	(3.2)	(44.0)	(41.4)	0.3	(41.1)
Profit before interest		580.0	(88.9)	491.1	564.9	(9.1)	555.8

a Boots Properties' results include development profit of £0.6m (2000 £2.5m).

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

c The transfer of lapsed shares in the QUEST to the Boots all employee share ownership plan (AESOP) resulted in a write down of the transferred shares by £0.8m and this has been charged to group costs. The shares held in the AESOP are being written down over the 3 years that they are being held in trust on behalf of the employees, and £0.3m, representing one month's cost, has been charged against the businesses (2000 £Nil). For further details see note 12 on page 55.

(iv) Profit before interest by geographic origin

	Before exceptional items 2001 £m	Exceptional items (note 3) 2001 £m	Total 2001 £m	Before exceptional items 2000 £m	Exceptional items (note 3) 2000 £m	Total* 2000 £m
Continuing operations						
UK	605.4	(56.5)	548.9	600.3	(9.4)	590.9
Rest of Europe	18.9	(26.9)	(8.0)	5.4	–	5.4
Rest of World	(3.5)	(2.3)	(5.8)	0.6	–	0.6
Group costs	(40.8)	(3.2)	(44.0)	(41.4)	0.3	(41.1)
Profit before interest	580.0	(88.9)	491.1	564.9	(9.1)	555.8

* Comparatives have been restated to reflect minor changes in presentation.

1 Segmental information continued**(v) Net assets by business segment**

	2001 £m	2000* £m
Continuing operations		
Boots The Chemists	877.8	905.8
Boots Retail International	26.9	41.4
Boots Opticians	57.0	51.0
Halfords	159.6	127.0
Boots Properties	811.0	838.7
Boots Healthcare International	334.5	89.8
Boots Contract Manufacturing	143.6	172.5
Group Strategic Initiatives	40.4	3.3
Net operating assets	2,450.8	2,229.5
Unallocated net liabilities	(473.9)	(376.0)
	1,976.9	1,853.5

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

	2001 £m	2000* £m
Continuing operations		
UK	2,105.5	2,118.9
Rest of Europe	179.3	75.5
Rest of World	166.0	35.1
	2,450.8	2,229.5

* Comparatives have been restated to reflect minor changes in presentation.

2 Total operating profit from continuing operations

	2001 £m	2000 £m
Group turnover	5,220.9	5,187.0
Cost of sales	(2,792.0)	(2,792.3)
Gross profit	2,428.9	2,394.7
Selling, distribution and store costs	(1,479.2)	(1,462.9)
Research and development costs	(25.5)	(26.5)
Administrative expenses	(371.6)	(354.0)
Share of operating loss of joint ventures	(23.1)	(8.4)
Total operating profit including share of joint ventures	529.5	542.9
Exceptional charges included in operating profit:		
Cost of sales	(10.5)	–
Selling, distribution and store costs	(6.9)	–
Administrative expenses	(33.1)	(22.0)
	(50.5)	(22.0)
Gross profit before exceptional items	2,439.4	2,394.7
Total operating profit before exceptional items	580.0	564.9

There have been no significant acquisitions during 2001.

Total operating profit is after charging:

	2001 £m	2000 £m
Operating lease rentals		
– Property rents	200.7	198.9
– Computer and plant hire	3.6	4.0
Depreciation, amortisation and impairments of fixed assets	162.0	154.4
Permanent diminution – QUEST	0.8	9.8
Auditors' remuneration, including £0.3m (2000 £0.3m) for the parent company	0.9	0.8

The group auditors and their associates also received £2.1m (2000 £6.4m) in respect of non-audit services in the UK, which were predominantly for a review of cost reduction opportunities, and £0.2m (2000 £0.4m) from overseas subsidiaries.

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3 Exceptional items

	2001 £m	2000 £m
Exceptional operating items:		
Boots The Chemists	(11.2)	(22.0)
Boots Retail International	(2.8)	–
Boots Properties	(5.6)	–
Boots Healthcare International	(15.0)	–
Boots Contract Manufacturing	(13.0)	–
Group costs	(2.9)	–
	(50.5)	(22.0)
Profit on disposal of fixed assets	3.2	12.9
Loss on disposal of businesses (see note 4)	(41.6)	–
	(88.9)	(9.1)
Attributable tax credit (see note 6)	13.1	6.3
	(75.8)	(2.8)

Exceptional operating items reflect the costs incurred so far in the business transformation process following a review of strategic direction. The costs fall across several business segments totalling £45.3m, and include £25.1m of redundancy costs from cost reduction programmes and £9.1m of asset write offs. In addition Boots Healthcare International incurred costs of £5.2m integrating Clearasil into its existing operations.

4 Acquisition and disposal of businesses**(i) Acquisitions**

	2001 £m	2000 £m
Tangible fixed assets	0.1	–
Stocks	–	0.1
Debtors	0.1	0.4
Cash balances	–	0.1
Other creditors and provisions	(0.2)	(0.5)
Fair value of net assets acquired	–	0.1
Goodwill	4.7	3.3
Consideration including acquisition costs	4.7	3.4
Deferred consideration included above	0.2	–
Loan notes consideration included above	1.6	–

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 the company acquired one of the UK's leading dental laboratories, Portland Ceramics Limited, for a consideration (through the issue of unsecured loan notes) of £1.6m and 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.

4 Acquisition and disposal of businesses continued**(ii) Disposals**

	2001 £m	2000 £m
Tangible fixed assets	(15.7)	–
Stocks	(11.9)	–
Debtors	(12.3)	–
Overdrafts	0.3	–
Other creditors and provisions	19.7	–
Net assets disposed of	(19.9)	–
Related goodwill	(17.9)	–
Disposal and other termination costs	(5.4)	–
Consideration	1.6	–
Loss on disposal	(41.6)	–
Deferred consideration included above	1.8	–

The principal disposals in the year were:

On 15th August 2000, an agreement was signed to transfer on 6th November 2000 the property leases, stocks, assets and employees of Boots Stores Nederland B.V. Dutch retail operation to Etos, part of Royal Ahold, the Netherlands' largest retail group. Boots paid Etos £1.0m (DF13.5m) in respect of certain obligations. The loss on disposal was £20.3m.

On 2nd February 2001, Marco Viti, part of the Italian over the counter (OTC) business, was sold to Italian pharmaceuticals company, Zeta, for a consideration of £2.1m. The deal included the transfer of 27 employees along with the net assets of the business. The loss on disposal was £0.1m.

On 26th April 2001, the company completed the sale of Roval, a private label manufacturing business in France and Spain, to the existing Roval management team for a consideration of £0.5m (FF5m). The sale was substantially completed by 31st March 2001 and this date has been used for accounting purposes. The loss on disposal was £21.0m.

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

	2001 £m	2000 £m
Acquisition of businesses	(2.9)	(3.4)
Cash balances acquired with businesses	–	0.1
Instalment received on loan made to W H Smith	10.0	10.0
Disposal of businesses	(0.2)	–
Overdrafts sold with businesses	0.3	–
Deferred consideration in respect of prior year acquisitions and disposals	–	(2.3)
Costs of disposals paid	(5.2)	–
Investment in joint ventures	(33.6)	(8.3)
Investment by minority interests in subsidiary undertaking	–	1.3
Disposal of investment by minority interest in subsidiary undertaking	(1.1)	–
	(32.7)	(2.6)

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5 Net interest	2001 £m	2000 £m
Interest payable and similar charges:		
Bank loans and overdrafts	(11.1)	(12.9)
Other loans	(42.6)	(40.4)
Finance lease charges	(1.1)	(1.3)
Interest capitalised	0.7	1.0
Income from interest rate swaps	15.1	23.9
	(39.0)	(29.7)
Interest receivable and similar income	20.2	17.4
Increase in value of investment in 10.125% bond 2017	19.9	18.2
Net interest	1.1	5.9

6 Tax on profit on ordinary activities	2001 £m	2000 £m
UK corporation tax at 30.0% (2000 30.0%):		
Current tax for the period	147.0	162.9
Deferred taxation for the period	9.2	(3.4)
Relief for overseas taxation	(1.4)	(3.7)
Total UK taxation	154.8	155.8
Overseas taxation:		
Current tax for the period	7.7	7.1
Overseas deferred taxation	(1.4)	0.4
	161.1	163.3
Share of tax credit of joint ventures	(2.3)	(0.8)
Total	158.8	162.5
Tax credit included above attributable to exceptional operating items	(12.4)	(6.3)
Tax credit included above attributable to exceptional non-operating items	(0.7)	–

The tax charge for the year has been reduced by some £11m as a result of satisfactory resolution of matters challenged by the Inland Revenue in prior years.

7 Profit for the financial year attributable to shareholders

Of the profit attributable to shareholders, £944.1m (2000 £59.0m) is dealt with in the financial statements of the parent company.

8 Dividends paid and proposed	2001 p per share	2000 p per share	2001 £m	2000 £m
Interim	7.8	7.5	68.6	66.5
Final proposed	18.5	17.7	163.0	155.2
	26.3	25.2	231.6	221.7

51/Notes relating to the financial statements

9 Earnings per share	2001	2000
Basic earnings per share before exceptional items	46.6p	45.4p
Effect of exceptional items	(8.7)p	(0.4)p
Basic earnings per share	37.9p	45.0p
Diluted earnings per share before exceptional items	46.6p	45.1p
Effect of exceptional items	(8.6)p	(0.3)p
Diluted earnings per share	37.8p	44.8p

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

	2001	2000
	£m	£m
Earnings		
Earnings for adjusted basic and diluted earnings per share calculation	409.0	401.8
Exceptional items	(75.8)	(2.8)
Earnings for basic and diluted earnings per share calculation	333.2	399.0

	2001	2000
	million	million
Number of shares		
Weighted average number of shares used in basic earnings per share calculation	878.2	885.7
Dilutive effect of options	2.7	5.0
Weighted average number of shares used in diluted earnings per share calculation	880.9	890.7

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 2000	26.1	59.7	85.8	9.1
Currency adjustments	–	2.3	2.3	–
Additions	–	239.8	239.8	0.1
Acquisition of businesses (see note 4)	4.7	–	4.7	–
Disposals	–	(0.4)	(0.4)	(0.4)
At 31st March 2001	30.8	301.4	332.2	8.8
Amortisation				
At 1st April 2000	2.1	21.4	23.5	6.9
Currency adjustments	–	(0.3)	(0.3)	–
Amortisation for year	1.4	3.0	4.4	0.7
At 31st March 2001	3.5	24.1	27.6	7.6
Net book value at 1st April 2000	24.0	38.3	62.3	2.2
Net book value at 31st March 2001	27.3	277.3	304.6	1.2

During the year, Boots Healthcare USA Inc. and Hermal Kurt Herrman oHG acquired the Clearasil brand from Proctor & Gamble for US\$340m (£237.4m). Acquisition costs of £2.4m were incurred.

Brands acquired by the company or by its subsidiaries, namely Clearasil, Dobendan and its derivatives, and Migränin are well known and well positioned in their markets and Boots Healthcare International (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.

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 2000	922.0	355.9	1,368.3	27.6	2,673.8
Currency adjustments	(0.5)	(0.2)	(0.2)	–	(0.9)
Additions	16.0	41.0	154.2	30.4	241.6
Disposals	(31.2)	(33.7)	(75.7)	–	(140.6)
Purchase of business	–	0.1	–	–	0.1
Disposal of businesses	(1.9)	(7.4)	(13.3)	–	(22.6)
Reclassifications	1.4	5.8	9.1	(16.3)	–
Revaluation deficit on investment properties	(1.8)	–	–	–	(1.8)
At 31st March 2001	904.0	361.5	1,442.4	41.7	2,749.6
Gross book value of depreciable assets	446.7	361.5	1,442.4	29.2	2,279.8
Depreciation					
At 1st April 2000	54.9	156.5	663.4	–	874.8
Currency adjustments	(0.1)	(0.1)	–	–	(0.2)
Depreciation for year	10.7	38.9	103.5	–	153.1
Disposals	(3.2)	(18.2)	(62.7)	–	(84.1)
Disposal of businesses	(1.1)	(3.1)	(2.7)	–	(6.9)
Impairment losses	0.1	–	–	–	0.1
At 31st March 2001	61.3	174.0	701.5	–	936.8
Net book value at 1st April 2000	867.1	199.4	704.9	27.6	1,799.0
Net book value at 31st March 2001	842.7	187.5	740.9	41.7	1,812.8

The cost of plant and machinery includes £24.1m (2000 £27.7m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £7.8m (2000 £9.2m) and for which the depreciation charge for the year was £4.9m (2000 £5.8m).

Land and buildings and assets in course of construction include capitalised interest of £6.4m (2000 £5.7m).

Land and buildings include investment properties as follows:

Valuation	£m
At 1st April 2000	93.1
Additions	0.8
Disposals	(4.1)
Revaluation deficit	(1.8)
At 31st March 2001	88.0

Investment properties were valued on the basis of open market value (adjusted to exclude the benefit of formal lease arrangements with group companies, as determined in accordance with the Guidance Notes on the valuation of assets issued by the Royal Institution of Chartered Surveyors) at 31st March 2001 by the group's own professionally qualified staff.

Surpluses and deficits arising and the aggregate surplus or deficit is transferred to the revaluation reserve except that any permanent diminution in value of an investment property is taken to the profit and loss account for the year.

In accordance with SSAP19, no depreciation is provided in respect of investment properties. This treatment represents a departure from the Companies Act 1985 requirements concerning depreciation of fixed assets. However, these properties are held for investment, rather than consumption, and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

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 2000	402.0	240.7	182.4	4.8	829.9
Additions	1.1	8.7	11.6	3.6	25.0
Disposals	(7.5)	(26.4)	(14.7)	–	(48.6)
Reclassifications and transfers	(0.9)	15.0	0.2	(4.0)	10.3
At 31st March 2001	394.7	238.0	179.5	4.4	816.6
Gross book value of depreciable assets	167.5	238.0	179.5	4.4	589.4
Depreciation					
At 1st April 2000	24.5	110.5	85.0	–	220.0
Depreciation for year	2.3	20.3	17.1	–	39.7
Disposals	(0.9)	(13.2)	(8.7)	–	(22.8)
Transfers	(1.5)	5.4	0.1	–	4.0
At 31st March 2001	24.4	123.0	93.5	–	240.9
Net book value at 1st April 2000	377.5	130.2	97.4	4.8	609.9
Net book value at 31st March 2001	370.3	115.0	86.0	4.4	575.7

The cost of plant and machinery includes £12.4m (2000 £15.3m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £4.4m (2000 £5.2m) and for which the depreciation charge for the year was £2.8m (2000 £3.4m).

	Group 2001 £m	Group 2000 £m	Parent 2001 £m	Parent 2000 £m
Net book value of land and buildings comprises:				
Freehold	652.1	667.1	343.2	343.7
Long leasehold (more than 50 years unexpired)	147.4	159.5	27.1	33.8
Short leasehold	43.2	40.5	–	–
	842.7	867.1	370.3	377.5
Analysis of cost or valuation:				
Cost	2,092.5	1,995.8	809.0	822.3
Valuation of properties – Directors 1993	560.5	576.3	–	–
– Independent 1989 and prior	8.6	8.6	7.6	7.6
Investment properties – Directors 2001	88.0	93.1	–	–
	2,749.6	2,673.8	816.6	829.9
Value of tangible fixed assets under the historical cost convention:				
Cost	2,487.2	2,403.7	813.5	833.0
Depreciation	932.2	873.8	239.1	221.9
Net book value	1,555.0	1,529.9	574.4	611.1

The valuations of properties (other than investment properties) were based upon existing use.

12 Fixed asset investments

Group	Joint venture equity £m	Loans to joint venture £m	Own shares £m	Total £m
Cost				
At 1st April 2000	5.8	2.2	199.5	207.5
Currency adjustments	(0.2)	–	–	(0.2)
Additions	11.0	22.6	–	33.6
Disposals	–	–	(26.1)	(26.1)
Share of retained losses	(20.8)	–	–	(20.8)
At 31st March 2001	(4.2)	24.8	173.4	194.0
Provision/amortisation				
At 1st April 2000	–	–	66.3	66.3
Disposals	–	–	(18.2)	(18.2)
Permanent diminution – QUEST	–	–	0.8	0.8
Amortisation of own shares – ESOP	–	–	4.1	4.1
– AESOP	–	–	0.3	0.3
At 31st March 2001	–	–	53.3	53.3
Net book value at 1st April 2000	5.8	2.2	133.2	141.2
Net book value at 31st March 2001	(4.2)	24.8	120.1	140.7

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 2000	1,572.0	91.9	12.6	2.2	199.5	1,878.2
Currency adjustments	3.2	(2.1)	–	–	–	1.1
Additions	185.6	105.7	11.0	22.6	–	324.9
Disposals and repayments	(2.0)	(4.3)	–	–	(26.1)	(32.4)
At 31st March 2001	1,758.8	191.2	23.6	24.8	173.4	2,171.8
Provision/amortisation						
At 1st April 2000	26.5	2.1	–	–	66.3	94.9
Disposals	(1.9)	–	–	–	(18.2)	(20.1)
Movement	–	25.6	–	–	–	25.6
Permanent diminution – QUEST	–	–	–	–	0.8	0.8
Amortisation of own shares – ESOP	–	–	–	–	4.1	4.1
– AESOP	–	–	–	–	0.3	0.3
At 31st March 2001	24.6	27.7	–	–	53.3	105.6
Net book value at 1st April 2000	1,545.5	89.8	12.6	2.2	133.2	1,783.3
Net book value at 31st March 2001	1,734.2	163.5	23.6	24.8	120.1	2,066.2

The principal subsidiary undertakings and joint ventures are listed on page 67.

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 Schemes (see page 30). At 31st March 2001, the trust held 2.0m (2000 2.4m) shares in the company with a market value of £12.0m (2000 £12.9m) and a nominal value of £0.5m (2000 £0.6m). The maximum number of shares held during the year was as at the beginning of the year and represented 0.3% of issued share capital at that time. Dividends have been waived by the trust. The shares were purchased to service Boots Long Term Bonus Schemes 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, £18.3m as at 31st March 2001, 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.

In February 1999 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).

No further shares have been acquired by the QUEST during the year (2000 5.7m shares). At 31st March 2001 16.5m (2000 20.1m) ordinary shares with a market value of £103.6m (2000 £108.0m) and a nominal value of £4.1m (2000 £5.0m) were held by the QUEST of which 4.5m related to lapsed options. The maximum number of shares held during the year was as at the beginning of the year and these represented 2.2% of the issued share capital at that time. 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) 2001	Number of shares (millions) 2000	Option price (p)
1992	–	0.1	386
1993	–	0.3	350
1993	0.1	0.3	418
1994	0.3	0.3	421
1994	0.2	0.6	415
1995	0.5	1.6	410
1996	1.9	2.1	485
1997	2.5	3.8	588
1998	2.0	2.7	808
1999	4.5	5.9	624

During the year an all employee share ownership plan (AESOP) was established by the company. The purpose of the AESOP is to acquire shares for employees and hold them in trust for not less than 3 years. Under this scheme, which is open to all employees, 1.7 million shares were acquired at a market price of 589p out of shares held in the QUEST in respect of which options had lapsed. The average price of these lapsed shares transferred out of the QUEST was 637p. The difference in value of the shares, £0.8m, was written off in the year. The cost of the shares in the AESOP is being written off through the businesses over 3 years. The charge for the current year, being one month's write down, totalled £0.3m. Dividends are payable on shares held in the Trust. At 31st March 2001 all the shares acquired were still held and had a market value at that date of £10.5m and a nominal value of £0.4m. This was the maximum number of shares held during the year and represents 0.2% of the share capital issued at that time.

For accounting purposes, the ESOP Trust, QUEST and the AESOP are considered to be under the control of the company. Accordingly their results, assets and liabilities are included in both the company and group financial statements of The Boots Company PLC.

The group has taken advantage of exemptions under UITF 17 'Employee Share Schemes' relating to Inland Revenue approved SAYE schemes, namely QUEST.

56/Notes relating to the financial statements

13 Stocks

	Group 2001 £m	Group 2000 £m	Parent 2001 £m	Parent 2000 £m
Manufacturing:				
Raw materials	22.0	24.6	12.0	13.5
Work in progress	7.9	10.5	5.5	8.0
Finished goods	49.9	55.9	33.1	30.5
	79.8	91.0	50.6	52.0
Retailing	553.0	584.2	145.2	146.2
Property development	13.9	14.3	-	-
	646.7	689.5	195.8	198.2

14 Debtors

	Group 2001 £m	Group 2000 £m	Parent 2001 £m	Parent 2000 £m
Falling due within one year:				
Trade debtors	280.1	282.3	52.4	61.6
Owed by subsidiary undertakings	-	-	983.6	91.4
Owed by joint ventures	1.7	1.8	1.5	1.6
Other debtors	87.6	33.9	74.0	45.1
Prepayments and accrued income	82.4	83.9	29.7	29.5
Corporation tax	11.9	2.6	8.2	0.6
	463.7	404.5	1,149.4	229.8
Falling due after more than one year:				
Owed by subsidiary undertakings	-	-	350.6	390.3
Other debtors	34.1	4.0	26.8	14.4
Deferred tax (see note 20)	-	-	-	4.7
	34.1	4.0	377.4	409.4
	497.8	408.5	1,526.8	639.2

Other debtors include pension prepayments – see note 26.

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15 Current asset investments and deposits	Group 2001 £m	Group 2000 £m	Parent 2001 £m	Parent 2000 £m
Listed investments	0.1	0.1	–	–
Short term deposits	73.9	379.1	47.0	357.9
	74.0	379.2	47.0	357.9
Market value of investments listed on the London Stock Exchange	0.2	0.2	–	–

16 Creditors: Amounts falling due within one year	Group 2001 £m	Group 2000 £m	Parent 2001 £m	Parent 2000 £m
Borrowings (see note 18)	145.7	210.8	335.1	617.7
Trade creditors	351.7	355.3	266.5	273.3
Bills of exchange	2.3	3.7	–	–
Due to subsidiary undertakings	–	–	54.5	138.6
Corporation tax	108.8	124.7	–	14.9
Taxation and social security (including VAT and other sales taxes)	35.0	39.7	15.0	14.5
Other creditors	148.3	139.4	92.2	78.9
Accruals and deferred income	127.2	124.4	67.1	67.6
Dividends (see note 8)	163.0	155.2	163.0	155.2
	1,082.0	1,153.2	993.4	1,360.7

17 Creditors: Amounts falling due after more than one year	Group 2001 £m	Group 2000 £m	Parent 2001 £m	Parent 2000 £m
Borrowings (see note 18)	412.5	449.0	668.7	676.7
Due to subsidiary undertakings	–	–	570.6	65.9
Due to joint ventures	3.1	–	0.8	–
Other creditors	7.9	7.2	1.5	3.7
Accruals and deferred income	28.4	33.0	22.4	21.2
	451.9	489.2	1,264.0	767.5

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

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18 Borrowings

	Notes	Group 2001 £m	Group 2000 £m	Parent 2001 £m	Parent 2000 £m
Bank loans and overdrafts repayable on demand		86.6	103.1	319.2	555.5
Other bank loans and overdrafts	a	99.4	161.3	99.2	157.2
Variable rate notes – Sterling	b	13.4	11.8	–	–
– Irish punts	b	7.0	10.5	–	–
10.125% bond 2017	c	27.7	47.6	268.1	263.5
5.5% eurobond 2009	d	300.0	300.0	300.0	300.0
Net liability under currency swaps	e	9.7	8.4	9.7	8.4
Obligations under finance leases		14.4	17.1	7.6	9.8
		558.2	659.8	1,003.8	1,294.4
Amounts included above repayable by instalments		148.3	187.4	106.8	122.0
Repayments fall due as follows:					
Within one year:					
– Bank loans and overdrafts		86.6	149.4	319.2	600.5
– Obligations under finance leases		5.2	6.9	2.8	4.2
– Other borrowings		53.9	54.5	13.1	13.0
		145.7	210.8	335.1	617.7
After more than one year:					
– Within one to two years		38.5	45.1	297.0	17.5
– Within two to five years		58.2	68.7	56.0	324.0
– After five years		315.8	335.2	315.7	335.2
		412.5	449.0	668.7	676.7
		558.2	659.8	1,003.8	1,294.4

a Other bank loans and overdrafts include the factoring of certain rental commitments of £99.2m (2000 £112.2m) 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 on which fixed rate interest of 5.5% is charged is redeemable in May 2009.

e The group has a number of currency swaps relating to the Clearasil investment and Boots Pharmaceuticals. On the disposal of Boots Pharmaceuticals in 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 these swaps 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; £15m 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 20.

All borrowings are unsecured.

19 Financial instruments and derivatives

An explanation of treasury policy and controls can be found in the financial review on page 20.

(i) Fair values of financial assets and liabilities

The fair value of currency and interest rate swaps and fixed rate borrowings have been determined with reference to market prices. All other material 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 2001 £m	Fair value 2001 £m	Book value 2000 £m	Fair value 2000 £m
Primary financial instruments held or issued to finance the company's operations:				
Cash in hand and bank	74.0	74.0	43.0	43.0
Current asset investments and deposits	74.0	74.0	379.2	379.2
Other financial assets	a 5.0	5.0	2.0	2.0
Bank loans and overdrafts repayable on demand	(86.6)	(86.6)	(103.1)	(103.1)
Eurobond	(300.0)	(296.4)	(300.0)	(282.7)
Obligations under finance leases	(14.4)	(14.4)	(17.1)	(17.1)
Other borrowings (excluding currency swaps)	(147.5)	(158.3)	(231.2)	(230.5)
Other financial liabilities	a (0.4)	(0.4)	(1.3)	(1.3)
Derivative financial instruments held to manage interest rate and currency profile:				
Interest rate swaps relating to operating leases	–	100.2	–	41.3
Interest rate swaps relating to fixed rate borrowings	–	14.8	–	(11.9)
Currency swaps (see note 18)	(9.7)	(14.2)	(8.4)	(13.4)
Interest rate caps	–	–	–	(0.3)

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	(513.1)	(31.3)	(0.5)	(544.9)	8.5	1.7
Other	(9.0)	(10.7)	(0.5)	(20.2)	8.6	1.7
At 31st March 2001	(522.1)	(42.0)	(1.0)	(565.1)	8.5	1.7
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

The sterling and other financial liabilities on which no interest is paid have weighted average periods to maturity of 5 and 0.8 years respectively (2000 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 (2000 £1,100m), with a weighted average life to maturity of 7.0 years (2000 7.9 years) and a weighted average fixed rate of 7.4% (2000 7.4%). Since the year end the weighted average period to maturity of the interest swap portfolio has been extended to 8.0 years. The floating rate payable on these swaps is based on LIBOR.

19 Financial instruments and derivatives continued**(ii) Interest rate risk profile continued****(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	70.0	–	1.4	71.4	–	–
Other	73.9	9.1	5.1	88.1	3.0	0.9
At 31st March 2001	143.9	9.1	6.5	159.5	3.0	0.9
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

The sterling financial assets on which no interest is paid has a weighted average period to maturity of 1.4 years. Other financial assets on which no interest is paid 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.

(iii) Foreign currency exposure profile

Operations with a sterling functional currency have Irish punts and US dollar monetary liabilities amounting to £7.0m (2000 £10.5m) and £23.4m (2000 £13.1m) 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 facilities

At 31st March 2001 the group's undrawn committed facilities, expiring in more than two years, were £600.0m (2000 £600.0m).

(v) The maturity of borrowings

Details are shown in note 18.

(vi) Hedging

Gains arising from the hedging of interest rates of £15.1m (2000 £23.9m) have been recognised in the profit and loss account. No new interest rate swaps have begun in the year. The fair values of unrecognised gains and losses at the balance sheet date are disclosed as part of note 19 (i) on page 59.

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 20, note 18 and note 19 (ii).

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20 Provisions for liabilities and charges

Group	Deferred taxation £m	Vacant property provisions £m	Total £m
At 1st April 2000	16.8	10.0	26.8
Profit and loss account	7.8	7.8	15.6
Utilised	–	(2.6)	(2.6)
At 31st March 2001	24.6	15.2	39.8

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
At 1st April 2000 (see note 14)	(4.7)
Profit and loss account	14.3
At 31st March 2001	9.6

	Group 2001 £m	Group 2000 £m	Parent 2001 £m	Parent 2000 £m
Analysis of deferred taxation provision:				
Accelerated capital allowances	(0.5)	13.7	–	–
Pension prepayments	26.1	(2.5)	10.7	(0.9)
Other items	(1.0)	5.6	(1.1)	(3.8)
	24.6	16.8	9.6	(4.7)
Unprovided deferred taxation:				
Accelerated capital allowances	83.1	77.2	15.9	27.3
Other items	2.7	1.8	3.0	2.3
	85.8	79.0	18.9	29.6

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.

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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 2000	224.8	252.5	266.9	40.8	1,066.6	1,851.6
Profit retained	–	–	–	–	101.6	101.6
Movement in goodwill (see below)	–	–	–	–	17.9	17.9
Revaluation deficit on investment properties	–	–	(1.8)	–	–	(1.8)
Revaluation surplus realised on disposals	–	–	(6.3)	–	6.3	–
Impairment losses on revalued assets	–	–	(0.1)	–	–	(0.1)
Depreciation element of revaluation reserves	–	–	(2.9)	–	2.9	–
Issue of shares	0.1	0.8	–	–	–	0.9
Currency adjustments	–	–	–	–	6.1	6.1
At 31st March 2001	224.9	253.3	255.8	40.8	1,201.4	1,976.2

The revaluation reserve includes £(2.1)m (2000 £0.5m) relating to investment properties.

Goodwill set off against reserves in respect of businesses still within the group is as follows:

	£m
At 1st April 2000	783.9
Goodwill released on disposal of businesses	(17.9)
At 31st March 2001	766.0

Parent	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st April 2000	224.8	252.5	40.8	992.5	1,510.6
Profit retained	–	–	–	712.5	712.5
Issue of shares	0.1	0.8	–	–	0.9
Currency adjustments	–	–	–	1.4	1.4
At 31st March 2001	224.9	253.3	40.8	1,706.4	2,225.4

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22 Share capital

	Number of shares 2001 million	Number of shares 2000 million	2001 £m	2000 £m
Ordinary shares of 25p each:				
Authorised	1,200.0	1,200.0	300.0	300.0
Allotted, called up and fully paid	899.5	899.3	224.9	224.8

Shares allotted during the year

	Number million	Nominal value £m	Consideration £m
Option schemes	0.2	0.1	0.9

Share options

Under a savings-related scheme, options have been granted enabling employees to subscribe for ordinary shares at approximately 80% of market price. At 31st March 2001, options exercisable from 2001 to 2007 at between 410p and 808p per share were outstanding in respect of 12.0m shares. In 1999 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. No options have been granted since February 1995.

At 31st March 2001, such options were outstanding as follows:

Number of shares	Option price	Exercisable from 31st May 2001 to
29,000	437p	August 2002
35,000	438p	June 2003
119,000	531p	June 2004
20,000	519p	November 2004
2,500	482p	February 2005

At 31st March 2001 there were no outstanding executive share options held by executive directors.

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23 Detailed analysis of gross cash flows

	2001 £m	2000 £m
Exceptional operating cash flows:		
Restructuring and integration costs paid	(28.1)	(17.3)
Cash flows relating to prior year disposals/acquisitions	(1.1)	(2.0)
	(29.2)	(19.3)
Returns on investment and servicing of finance:		
Interest paid	(57.0)	(35.0)
Interest received	34.4	25.2
	(22.6)	(9.8)
Capital expenditure and financial investment:		
Purchase of fixed assets	(461.8)	(265.7)
Disposal of fixed assets	48.9	92.5
Purchase of own shares	–	(57.9)
Disposal of own shares	7.9	10.1
	(405.0)	(221.0)
Management of liquid resources:		
Decrease/(increase) in short term deposits	305.2	(283.6)
	305.2	(283.6)
Financing:		
Capital element of finance lease rental agreements	(9.2)	(6.9)
5.5% eurobond 2009	–	300.0
Decrease in other borrowings	(63.1)	(25.4)
Cash (outflow)/inflow from change in borrowings and lease financing	(72.3)	267.7
Issue of ordinary share capital	0.9	0.5
Repurchase of shares	–	(95.4)
	(71.4)	172.8

24 Analysis of net debt

	As at 1st April 2000 £m	Cash flow £m	Acquisitions £m	Disposals £m	Other non-cash changes £m	Currency £m	As at 31st March 2001 £m
Cash at bank and in hand	43.0	30.0	–	–	–	1.0	74.0
Bank loans and overdrafts repayable on demand	(103.1)	16.5	–	–	–	–	(86.6)
Cash	(60.1)	46.5	–	–	–	1.0	(12.6)
Liquid resources	379.2	(305.2)	–	–	–	–	74.0
Obligations under finance leases	(17.1)	9.2	–	0.8	(7.3)	–	(14.4)
Other borrowings (including currency swaps)	(539.6)	63.1	(1.6)	2.5	17.6	0.8	(457.2)
Total	(237.6)	(186.4)	(1.6)	3.3	10.3	1.8	(410.2)

Liquid resources comprise listed investments and short term deposits (see note 15).

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 2001 £m	Group 2000 £m	Parent 2001 £m	Parent 2000 £m
Contracts placed	58.3	77.1	2.1	3.0

(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	8.6	1.0	0.2	–
Over one year and less than five years	25.2	2.3	1.6	1.0
Over five years	165.9	–	1.6	–
At 31st March 2001	199.7	3.3	3.4	1.0
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

(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 has been approved by the federal court in Illinois, but is subject to certain appeals. 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 three year actuarial valuation, as at 1st April 2001, is being completed. The key assumptions used in the 1st April 1998 valuation 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 (2000 £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 one, five, and eight years respectively.

The company contributed 10% of pensionable salaries for the year which amounted to £52m. A pension prepayment of £42m (2000 provision £5m) is included within other debtors (2000 other creditors). The company has also prepaid £50m of the contributions for the year ended 31st March 2002 raising the total pension debtor to £92m.

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.

New employees from 1st October 2000 are offered membership of a defined contribution pension arrangement. After five years membership of this plan, employees have the opportunity to join the defined benefit scheme. Further details of this scheme are given in the financial review on page 20.

Comments on the impact of FRS17 on the pension fund valuation are contained in the financial review on page 20.

27 Staff numbers and costs

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

	2001 Number of heads	2001 Full time equivalents	2000 Number of heads	2000 Full time equivalents
Continuing operations				
Boots The Chemists	60,268	37,185	62,133	38,238
Boots Retail International	1,343	1,204	961	792
Boots Opticians	4,378	3,366	4,349	3,319
Halfords	10,043	6,482	9,791	6,157
Boots Properties	74	73	80	78
Boots Healthcare International	2,310	2,241	2,378	2,291
Boots Contract Manufacturing	4,000	3,907	4,021	3,823
Group Strategic Initiatives	384	324	194	175
Central	760	717	788	742
Total	83,560	55,499	84,695	55,615

Total number of persons employed by continuing operations at 31st March 2001 was 80,529 heads, 53,664 full time equivalents (2000 85,115 heads, 55,272 full time equivalents).

The aggregate payroll cost was as follows:

	2001 £m	2000 £m
Wages and salaries	907.2	887.0
Social security costs	66.0	66.2
Other pension costs	7.5	6.9
	980.7	960.1

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 28 to 33.

29 Related party disclosures

During the year the group had no material transactions with related parties other than the transfer of assets and costs of £14.3m to Digital Wellbeing Ltd.

67/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		
Boots Health and Beauty Ltd.	Healthcare services	100		
Boots Dentalcare Ltd.	Healthcare services	100		
Boots Retail (Taiwan) Ltd.	Retailing	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
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
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
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.	Retailing	100		Thailand
Boots Healthcare USA Inc.	Marketing		100	USA
Joint Ventures				
Boots MC Company k.k. (Jointly controlled with Mitsubishi Corporation)	Retailing	51		Japan
handbag.com Ltd. (Jointly controlled with Hollinger Telegraph New Media Ltd.)	Internet portal	50		UK
Digital Wellbeing Ltd. (Jointly controlled with Granada Media Group Ltd.)	e-business	60		UK

Percentages relate to holdings of ordinary share capital.

Minority shareholders have equity and non-equity holdings in Boots Piramal Healthcare Ltd, incorporated in India.

68/Group financial record

Profit and loss account	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Group turnover	5,220.9	5,187.0	5,044.6	5,021.9	4,578.0
Group operating profit before exceptional items	603.1	573.3	564.1	538.0	491.8
Share of operating loss of joint ventures	(23.1)	(8.4)	(1.7)	–	–
Total operating profit before exceptional items	580.0	564.9	562.4	538.0	491.8
Operating exceptional items	(50.5)	(22.0)	(76.3)	5.5	8.6
Total operating profit including joint ventures	529.5	542.9	486.1	543.5	500.4
Other exceptional items	(38.4)	12.9	(314.0)	(126.8)	26.3
Profit on ordinary activities before interest	491.1	555.8	172.1	416.7	526.7
Net interest	1.1	5.9	(1.8)	15.2	44.4
Profit on ordinary activities before taxation	492.2	561.7	170.3	431.9	571.1
Taxation	(158.8)	(162.5)	(146.3)	(169.2)	(178.3)
Profit on ordinary activities after taxation	333.4	399.2	24.0	262.7	392.8
Minority interests	(0.2)	(0.2)	(0.1)	1.3	0.5
Profit attributable to shareholders	333.2	399.0	23.9	264.0	393.3
Dividends	(231.6)	(221.7)	(214.5)	(203.4)	(586.1)
Profit/(loss) retained	101.6	177.3	(190.6)	60.6	(192.8)

Total recognised gains and losses	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Profit for the financial year attributable to shareholders	333.2	399.0	23.9	264.0	393.3
(Deficit)/surplus on revaluation of properties	(1.8)	(3.3)	(1.4)	(1.4)	27.1
Impairment losses on revalued assets	(0.1)	(1.1)	(1.7)	–	–
Currency translation differences	6.1	(6.6)	3.0	(13.7)	(10.4)
Other net gains	–	–	0.4	–	0.3
Recognised gains and losses for the year	337.4	388.0	24.2	248.9	410.3

Movements in shareholders' funds	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Recognised gains and losses for the year	337.4	388.0	24.2	248.9	410.3
Dividends	(231.6)	(221.7)	(214.5)	(203.4)	(586.1)
New share capital subscribed	0.9	0.5	8.8	11.8	7.7
Repurchase of shares	–	(95.4)	–	–	(300.0)
Goodwill relating to acquisitions prior to 1st April 1998	–	–	(1.4)	(189.3)	(124.5)
Goodwill released on disposal of businesses	17.9	–	312.2	121.5	4.4
Scrip dividends	–	–	–	27.8	8.3
Increase/(decrease) in shareholders' funds	124.6	71.4	129.3	17.3	(579.9)

69/Group financial record

Balance sheet	2001	2000	1999	1998	1997
	£m	£m	£m	£m	£m
Fixed assets (excluding investments)	2,117.4	1,861.3	1,853.0	1,694.2	1,803.5
Investments	140.7	141.2	112.4	2.6	0.5
Net current assets	210.5	367.0	71.2	264.2	184.4
Creditors: Amounts falling due after more than one year	(451.9)	(489.2)	(230.7)	(258.6)	(274.9)
Provisions for liabilities and charges	(39.8)	(26.8)	(25.3)	(51.5)	(80.0)
Net assets	1,976.9	1,853.5	1,780.6	1,650.9	1,633.5
Represented by:					
Shareholders' funds	1,976.2	1,851.6	1,780.2	1,650.9	1,633.6
Minority interests	0.7	1.9	0.4	–	(0.1)
	1,976.9	1,853.5	1,780.6	1,650.9	1,633.5

Cash flow statement	2001	2000	1999	1998	1997
	£m	£m	£m	£m	£m
Cash inflow from operating activities	664.4	753.7	601.9	605.6	515.1
Returns on investment and servicing of finance	(22.6)	(9.8)	(24.9)	(10.5)	39.1
Taxation	(167.4)	(154.4)	(112.4)	(232.8)	(174.4)
Capital expenditure and financial investment	(405.0)	(221.0)	(458.5)	9.1	(169.6)
Acquisitions and disposals	(32.7)	(2.6)	55.2	(190.4)	(40.4)
Equity dividends paid	(224.0)	(216.3)	(207.1)	(563.3)	(169.8)
Cash (outflow)/inflow before use of liquid resources and financing	(187.3)	149.6	(145.8)	(382.3)	–
Management of liquid resources	305.2	(283.6)	122.8	371.9	288.5
Financing	(71.4)	172.8	28.2	(8.8)	(258.1)
Increase/(decrease) in cash	46.5	38.8	5.2	(19.2)	30.4

Statistics	2001	2000	1999	1998	1997
Sales growth from continuing operations	0.7%	5.6%	5.9%	11.7%	13.8%
Return on shareholders' funds before exceptional items	22.1%	22.6%	23.7%	23.6%	16.3%
Earnings per share	37.9p	45.0p	2.6p	29.0p	42.9p
Earnings per share before exceptional items	46.6p	45.4p	42.9p	42.6p	39.5p
Net (debt)/funds (£m)	(410.2)	(237.6)	(294.8)	(149.4)	229.5
Capital expenditure (£m)	241.6	252.8	369.4	276.6	226.9

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	2001	2000	1999	1998	1997
Dividend per share	26.3p	25.2p	23.8p	22.3p	64.7p
Dividend cover before exceptional items	1.8	1.8	1.8	1.9	0.6
Share price:					
Highest	649p	884p	1070p	963p	701p
Lowest	479p	457p	836p	676p	555p

70/Segmental financial record – continuing operations

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Turnover, including inter-segmental turnover:					
Boots The Chemists	3,991.5	3,978.8	3,823.1	3,573.7	3,313.5
Boots Retail International – group	37.4	30.2	15.8	5.2	–
– share of joint venture	4.7	2.3	–	–	–
Boots Opticians	196.1	195.7	194.3	182.9	148.1
Halfords	508.5	492.6	457.3	435.0	412.8
Boots Properties – Development	0.6	45.9	4.8	49.4	0.5
– Investment	89.1	93.6	91.5	100.2	101.6
Boots Healthcare International	362.0	327.1	308.4	273.7	243.4
Boots Contract Manufacturing	326.9	321.1	309.8	314.9	259.5
Group Strategic Initiatives – Internet Ventures	1.9	0.6	–	–	–
– Wellbeing Services	8.5	1.9	–	–	–
Operating profit before operating exceptional items:					
Boots The Chemists	526.1	491.6	461.8	443.8	426.5
Boots Retail International – group	(33.4)	(27.6)	(19.2)	(21.2)	(8.5)
– share of joint venture	(10.5)	(5.5)	(1.7)	–	–
Boots Opticians	4.0	11.2	14.5	17.0	13.8
Halfords	37.0	45.2	40.3	34.2	26.8
Boots Properties – Development	0.6	2.5	(0.2)	8.8	–
– Investment	55.4	59.8	65.4	67.2	72.1
Boots Healthcare International	49.2	24.0	15.3	1.2	(6.6)
Boots Contract Manufacturing	35.2	25.2	24.3	24.7	19.7
Group Strategic Initiatives – Internet Ventures	(22.1)	(6.9)	–	–	–
– Wellbeing Services	(20.7)	(13.2)	(0.8)	–	–
Capital expenditure:					
Boots The Chemists	126.2	118.9	251.4	146.9	88.3
Boots Retail International	7.3	11.2	9.0	4.8	1.1
Boots Opticians	10.8	7.8	10.4	7.8	8.9
Halfords	38.5	20.6	15.5	14.9	12.3
Boots Properties	10.5	64.4	52.6	61.6	63.8
Boots Healthcare International	5.3	5.1	8.4	7.4	11.0
Boots Contract Manufacturing	12.9	18.0	20.5	26.5	31.4
Group Strategic Initiatives – Internet Ventures	0.6	–	–	–	–
– Wellbeing Services	29.5	6.8	–	–	–

71/Shareholder information

Annual general meetings

The annual general meeting will be held at 11.00 am on Thursday, 26th July 2001 at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London. 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 25th July 2002.

Dividend payments

The proposed final dividend (if approved) will be paid on 17th August 2001 to shareholders registered on 15th June 2001. 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 27th July 2001.

The expected dividend payment dates for the year to 31st March 2002 are:

Interim dividend	February 2002
Final dividend	August 2002

Results

For the year to 31st March 2002:

Interim results announced	November 2001
Interim statement circulated	November 2001
Preliminary announcement of full year results	May 2002
Annual report circulated	June 2002

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 020 7678 8300) Hoare Govett is regulated by the Securities and Futures Authority.
- **Natwest Stockbrokers Limited** (telephone 020 7600 2050) 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 Investor 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 2001

Shareholding range	Number	%	Total holding	%
1–500	52,002	38.84	12,365,075	1.37
501–1,000	32,399	24.20	24,698,665	2.75
1,001–10,000	46,751	34.92	118,267,535	13.15
10,001–100,000	2,169	1.62	53,185,495	5.91
100,001–1,000,000	437	0.33	142,147,689	15.80
Over 1,000,000	125	0.09	548,850,356	61.02
	133,883	100.00	899,514,815	100.00