





purchased to complete the £300m buy back programme announced in March 2002 and 37.4m shares at a cost of £208.9m were purchased as part of the current programme.

**Share price** Our share price fell 21.1% from 672.5p at the end of last year to 530.5p on 31st March 2003. The price ranged from a high of 725p to a low of 492p.

Whilst this fall reflects a general decline in stock market values it represents a better performance than the FTSE100 which fell by 31.5% in the same period.

**Total shareholder return (TSR)** of the company over the last five years compared with those of our peer companies were as follows:

Five years to 31st March 2003		%
1	Smith and Nephew	123.9
2	Alliance UniChem	24.0
3	Reckitt Benckiser	21.4
4	Tesco	13.1
5	GUS	(17.1)
6	Debenhams	(17.4)
7	<b>Boots</b>	<b>(24.0)</b>
8	WHSmith	(24.2)
9	Kingfisher	(35.6)
10	Marks & Spencer	(37.8)
11	J Sainsbury	(39.3)

Debenhams replaced SmithKline Beecham last year but appears as a peer company for the first time as it has completed five years as a listed company. Position seven this year is an improvement of two places compared with last year. Our five-year TSR of (24.0)% represents (5.3)% on an annualised basis. Over a ten-year period our equivalent annualised return was 5.7%.

#### Pensions

Following the Accounting Standards Board proposal in July 2002 to extend the transitional regime of FRS17 'Retirement Benefits', the company decided not to adopt FRS17 in the financial statements for the current year and to continue to account for pensions under SSAP24. The Boots Pension Scheme cost for the year under SSAP24 is £31m (2002 £5m).

Disclosures under FRS17 are included in note 26 to the accounts. In contrast to a number of other UK companies, this shows that the scheme has a surplus of £0.2bn on the FRS17 basis.

#### Treasury policy and controls

Treasury manages financial risk and ensures that enough liquidity is available to meet likely needs.

Note 19 shows further details under the disclosure requirements of FRS13 'Derivatives and Other Financial Instruments Disclosures'.

**Controls** seek to prevent fraud and other unauthorised transactions as well as counterparty risk. The group's risk assurance and audit staff reviews annually the effective operation of key controls. Strict guidelines for cash investment apply worldwide, with cash held only in high quality bank deposits and commercial paper. Interest rate swaps, which the company uses to manage interest rate exposure, are strictly controlled and monitored, with each transaction authorised by the chief financial officer.

**Liquidity and funding** The company has good access to the capital markets due to its strong credit ratings from Moody's and Standard and Poor's (A1/P1 and A+/A1). The group has credit facilities with 7 banks which mature in 2004, £462m of which remain undrawn. Short term needs are met from uncommitted bank lines.

**Lease liabilities** In common with other UK retailers, the group has liabilities through its obligations to pay rents under property leases. The following table shows the capitalised value of the committed after tax rents payable at 31st March 2003, excluding any likely increase in rents at rent reviews, discounted at the group's after tax long term cost of borrowing of 3.99%.

Maturity of commitment	Annual rent commitment at 31st March 2003 £m	Capitalised value £m
1 to 10 years	69.1	235.0
10 to 20 years	79.4	584.2
20 to 30 years	10.1	102.3
Over 30 years	5.6	81.5
Total	164.2	1,003.0

**Interest** policy is to maintain a balance between debt at fixed and floating rates, but we do not hedge against the impact of short term interest rate movements.

During the year the group reviewed its interest rate management policy and concluded that certain interest rate swaps were no longer an effective hedge to the group's liabilities. This resulted in the closure of £1,315m of interest rate swaps. The closure generated a surplus of £100.6m.

A further £200m of index linked swaps were closed out following the year end at a value marginally lower than that provided for in the balance sheet as at 31st March 2003. This along with the surplus noted above and other related items gave rise to a net credit of £92.1m for the closure of interest related swaps in the year and this is highlighted in the interest note as exceptional (note 5). 50% of the company's other fixed rate borrowings have been swapped into floating rate.

**Currency exposure** Modest sales and purchases are made from the UK in a range of currencies, but we do not hedge them into sterling. We have partially hedged further cash flows of the Boots Healthcare International business using US dollar (\$93m) and Euro (€118m) foreign exchange swaps.

**Capital structure** The company has continued its policy of returning surplus capital to shareholders by repurchasing shares in the market. This amounted to £462.8m in the year to 31st March 2003.



**Howard Dodd**  
Chief Financial Officer