

# Notes relating to the financial statements

## 1. Segmental information

### (i) Turnover by business segment

	Notes	2004 £m	Restated <sup>1</sup> 2003 £m
Health		1,806.7	1,704.5
Beauty and Toiletries		1,992.5	1,902.4
Lifestyle		676.5	676.5
Boots The Chemists		4,475.7	4,283.4
Boots Opticians and Dentalcare		241.6	258.6
		<b>4,717.3</b>	4,542.0
Boots Healthcare International	a	476.0	430.1
Boots Retail International	b	41.6	35.6
Group and other	c	91.5	79.8
Continuing operations		5,326.4	5,087.5
Discontinued operation – Halfords		–	234.9
<b>Turnover: group and share of joint ventures</b>		<b>5,326.4</b>	5,322.4

a Boots Healthcare International also made inter-segmental sales of £28.6m (2003 £30.3m).

b Boots Retail International also made inter-segmental sales of £1.4m (2003 £1.4m).

c Group and other includes Boots Manufacturing third party sales of £68.4m (2003 £68.1m).

### (ii) Turnover by geographical segment

	Origin 2004 £m	Restated <sup>1</sup> Origin 2003 £m	Destination 2004 £m	Restated <sup>1</sup> Destination 2003 £m
UK	4,813.3	4,864.0	4,761.7	4,818.6
Rest of Europe	336.5	300.8	370.5	329.0
Rest of World	176.6	157.6	194.2	174.8
	<b>5,326.4</b>	5,322.4	<b>5,326.4</b>	5,322.4

Included in the UK is turnover of £nil (2003 £234.9m) from discontinued operation – Halfords. In addition, inter-segmental sales were made of £117.6m (2003 £88.0m).

<sup>1</sup>Restated on adoption of FRSS Application Note G on revenue recognition (see note 1(iv)).

### (iii) Profit before interest and taxation by business segment

	Notes	Before exceptional items 2004 £m	Total 2004 £m	Restated <sup>1</sup> Before exceptional items 2003 £m	Restated <sup>1</sup> Total 2003 £m
Boots The Chemists	a	531.1	523.8	568.4	566.4
Boots Opticians and Dentalcare		(5.1)	(1.1)	(30.9)	(66.3)
		<b>526.0</b>	<b>522.7</b>	537.5	500.1
Boots Healthcare International		80.6	80.6	70.1	70.1
Boots Retail International		(10.4)	(10.4)	(22.3)	(22.3)
Group and other		(46.1)	(6.4)	(66.2)	(58.2)
Continuing operations		550.1	586.5	519.1	489.7
Discontinued operation – Halfords		–	–	22.5	(100.7)
<b>Profit before interest and taxation</b>		<b>550.1</b>	<b>586.5</b>	541.6	389.0

<sup>1</sup>Restated on adoption of FRSS Application Note G on revenue recognition (see note 1(iv)).

a Boots The Chemists includes Digital Wellbeing Limited (DWL) operating loss of £3.2m (2003 £14.7m). DWL has been a subsidiary of Boots The Chemists for all of the financial year. 2003 included a share of the joint venture loss of £11.8m.

For an analysis of exceptional items see note 3.

### (iv) Impact of FRSS Changes – Revenue Recognition

During the year, the Accounting Standards Board issued additional guidance to FRSS in the form of Application Note G: Revenue Recognition.

The overall impact on the group profit and loss account is to reduce turnover by £5.0m (2003 £4.9m) and operating profit by £1.4m (2003 £2.5m). There is a prior year adjustment of £30.0m to reserves at 31st March 2003 as a result of these changes, an increase of £42.9m to creditors partly offset by the related deferred tax assets of £12.9m shown within provisions for liabilities and charges (see notes 16 and 20). Net assets at 31st March 2004 have been reduced by £31.0m as a result of these changes. Comparatives have been restated. There is no impact on the parent company.

### Elements Leading to Restatement

#### 1. Advantage Card

In the past when points were issued the group has provided for the cost of goods which are expected to be purchased by customers using those points. This has previously been charged to cost of sales. Application Note G requires the provision to be for the full retail value of the points and for this to be charged to turnover. The impact of this change on sales is a reduction of £2.7m (2003 £4.5m) and an operating profit reduction of £1.4m (2003 £2.5m).

A prior year adjustment of £26.7m has been made to reserves.

**1. Segmental information continued****2. Other adjustments**

Other adjustments relate to monies received from customers on certain direct debit schemes, certain commissions and changes to gift voucher redemption provisions now brought into line with FRS5. The impact of these changes on sales is a reduction of £2.3m (2003 £0.4m) and there is no impact on operating profit (2003 £nil).

A prior year adjustment of £3.3m has been made to reserves.

**Summary of Impact on Sales**

	Post FRS5 2004 £m	Pre FRS5 2004 £m	Change 2004 £m	Post FRS5 2003 £m	Pre FRS5 2003 £m	Change 2003 £m
Boots The Chemists	4,475.7	4,478.3	(2.6)	4,283.4	4,284.4	(1.0)
Boots Opticians and Dentalcare	241.6	244.0	(2.4)	258.6	262.5	(3.9)
Boots Group	5,326.4	5,331.4	(5.0)	5,322.4	5,327.3	(4.9)

**Summary of Impact on Operating Profit**

	Post FRS5 2004 £m	Pre FRS5 2004 £m	Change 2004 £m	Post FRS5 2003 £m	Pre FRS5 2003 £m	Change 2003 £m
Boots The Chemists	531.1	531.2	(0.1)	568.4	568.6	(0.2)
Boots Opticians and Dentalcare	(5.1)	(3.8)	(1.3)	(30.9)	(28.6)	(2.3)
Boots Group	550.1	551.5	(1.4)	541.6	544.1	(2.5)

**(v) Profit before interest and taxation by geographical origin**

	Before exceptional items 2004 £m	Total 2004 £m	Restated <sup>1</sup> Before exceptional items 2003 £m	Restated <sup>1</sup> Total 2003 £m
UK	469.6	506.0	459.9	307.3
Rest of Europe	68.0	68.0	65.5	65.5
Rest of World	12.5	12.5	16.2	16.2
<b>Profit before interest and taxation</b>	<b>550.1</b>	<b>586.5</b>	541.6	389.0

Included in the UK is operating profit of £nil (2003 £22.5m) from discontinued operation – Halfords.

**(vi) Net assets by business segment**

	2004 £m	Restated <sup>1</sup> 2003 £m
Boots The Chemists	1,801.4	1,790.2
Boots Opticians and Dentalcare	62.6	95.4
	<b>1,864.0</b>	1,885.6
Boots Healthcare International	426.7	418.3
Boots Retail International	17.5	17.6
Other	61.2	85.7
Net operating assets (all continuing operations)	<b>2,369.4</b>	2,407.2
Unallocated net liabilities	<b>(486.9)</b>	(437.3)
	<b>1,882.5</b>	1,969.9

Net operating assets include intangible and tangible fixed assets, investment in joint ventures, stocks, third party debtors and creditors. Unallocated net liabilities includes own shares, all taxation balances, dividend creditors and net debt.

**(vii) Net operating assets by geographical segment**

	2004 £m	Restated <sup>1</sup> 2003 £m
UK	1,811.1	2,031.0
Rest of Europe	464.5	219.6
Rest of World	93.8	156.6
	<b>2,369.4</b>	2,407.2

<sup>1</sup>Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

**2. Total operating profit**

Notes	Total <sup>2</sup> 2004 £m	Restated <sup>1</sup> Continuing operations 2003 £m	Discontinued operation 2003 £m	Restated <sup>1</sup> Total 2003 £m
Group turnover	5,325.0	5,085.4	234.9	5,320.3
Cost of sales	(2,892.9)	(2,723.3)	(121.7)	(2,845.0)
Gross profit	2,432.1	2,362.1	113.2	2,475.3
Selling, distribution and store costs	(1,538.0)	(1,473.8)	(77.1)	(1,550.9)
Research and development costs	(21.3)	(25.7)	–	(25.7)
Administrative expenses	(321.6)	(330.3)	(13.6)	(343.9)
<b>Group operating profit</b>	<b>551.2</b>	532.3	22.5	554.8
Share of operating loss of joint ventures	(1.1)	(13.2)	–	(13.2)
<b>Total operating profit including share of joint ventures</b>	<b>550.1</b>	519.1	22.5	541.6

<sup>1</sup>Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

<sup>2</sup>All relating to continuing operations.

There have been no significant acquisitions during 2004.

a Group operating profit includes £12.0m in the comparative year for costs of rationalising the group's manufacturing facilities.

b Costs of £45.5m have been included in the current year for rationalising head office as part of the Getting in Shape programme.

**Total operating profit is after charging:**

	2004 £m	2003 £m
Operating lease rentals		
– Property rents	182.2	190.1
– Computer and plant hire	22.7	9.4
Depreciation, amortisation and impairments of fixed assets	136.7	162.8
Auditors' remuneration, including £0.2m (2003 £0.2m) for the company	0.9	1.0

The group auditors and their associates also received £1.9m (2003 £1.3m) in respect of non-audit services in the UK. This represents less than 9% of consultancy and professional services costs of the group for 2004. This included:

- further assurance services of £1.2m (2003 £0.7m) that included advice on accounting matters and an ongoing audit review of a major new systems development;
- tax services of £0.5m (2003 £0.3m) with £0.2m (2003 £0.1m) relating to compliance work, the balance being advisory;
- other services of £0.2m (2003 £0.3m) that included £0.1m (2003 £0.2m) for the secondment of auditors' staff in the year.

These latter arrangements are covered by written agreements to ensure the objectivity and independence of the auditor is not compromised.

**3. Exceptional items**

	Total <sup>1</sup> 2004 £m	Continuing operations 2003 £m	Discontinued operation 2003 £m	Total 2003 £m
<b>Profit on disposal of fixed assets</b>	<b>32.5</b>	5.1	–	5.1
Provision for loss on closure of operations	3.9	(34.5)	–	(34.5)
Loss on disposal of business (see note 4)	–	–	(123.2)	(123.2)
<b>Total exceptional items before taxation</b>	<b>36.4</b>	(29.4)	(123.2)	(152.6)
<b>Attributable tax credit (see note 6)</b>	<b>0.6</b>	9.4	1.7	11.1
	<b>37.0</b>	(20.0)	(121.5)	(141.5)

<sup>1</sup>All relating to continuing operations.

Provision for loss on closure of operations relates to the withdrawal from certain wellbeing services.

As detailed in note 5 an exceptional interest credit of £92.1m arose in the year to 31st March 2003, the tax on which was £27.6m.

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

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

During the year, Boots The Chemists acquired a number of pharmacy businesses for £0.9m. There were no significant fair value adjustments in respect of these acquisitions.

**4. Acquisition and disposal of businesses continued**

<b>(ii) Disposals</b>	<b>2004 £m</b>	<b>2003 £m</b>
Tangible fixed assets	–	(109.9)
Stocks	–	(91.4)
Debtors	–	(6.4)
Cash	–	(21.5)
Other creditors and provisions	–	80.9
<b>Net assets disposed of</b>	<b>–</b>	<b>(148.3)</b>
Related goodwill	–	(349.3)
Disposal and other termination costs	–	(21.6)
Consideration	–	396.0
<b>Loss on disposal of business</b>	<b>–</b>	<b>(123.2)</b>

There were no business disposals in the year to 31st March 2004. The principal disposal in the year to 31st March 2003, was the sale of Halfords Limited (completed on 30th August 2002) to CVC Capital Partners. Halfords has been treated as a discontinued operation. The consideration of £396.0m reflects the final settlement on completion of the net asset value statement in December 2002.

<b>(iii) Net cash (outflow)/inflow for acquisitions and disposals</b>	<b>2004 £m</b>	<b>2003 £m</b>
Acquisition of businesses	<b>(1.1)</b>	(1.2)
Disposal of business	–	396.0
Cash balance sold with business	–	(21.5)
Cash balances acquired with businesses	–	1.0
Deferred consideration in respect of prior year acquisitions and disposal	–	0.6
Costs of disposal paid	–	(8.6)
Investment in joint ventures	<b>(1.1)</b>	(9.3)
Repayment of loan by joint venture	–	1.1
	<b>(2.2)</b>	358.1

**5. Net interest (payable)/receivable and similar items**

	<b>Notes</b>	<b>2004 £m</b>	<b>2003 £m</b>
<b>Interest payable and similar charges:</b>			
Bank loans and overdrafts		<b>(6.2)</b>	(7.9)
Other loans	a	<b>(18.1)</b>	(23.9)
Finance lease charges		<b>(0.7)</b>	(0.9)
Income from interest rate swaps		<b>6.8</b>	22.0
		<b>(18.2)</b>	(10.7)
<b>Interest receivable and similar income</b>			
<b>Increase in value of investment in 10.125% bond 2017</b>	a	<b>13.2</b>	16.6
<b>Share of interest of joint ventures</b>		<b>(0.5)</b>	(0.4)
<b>Net interest (payable)/receivable and similar items before closure of interest rate swaps</b>			
		<b>(5.5)</b>	11.3
<b>Exceptional interest on closure of interest rate swaps</b>	b	<b>–</b>	92.1
<b>Net interest (payable)/receivable and similar items</b>		<b>(5.5)</b>	103.4

a Included in other loans is interest payable on the 10.125% bond 2017 of £nil (2003 £5.8m) and eurobond of £16.5m (2003 £16.5m). The 10.125% bond 2017 was redeemed on 25th June 2002.

b Interest rate swaps – During the year to 31st March 2003, the group reviewed its interest rate management policy and concluded that certain interest rate swaps were no longer an effective hedge to liabilities. As a result the group closed out £1,315m of interest rate swaps. £1,100m of these were lease related, and their closure resulted in the receipt of a net cash premium of £53.8m.

The exceptional interest credit in the year to 31st March 2003, totalled £92.1m and comprised:

- the £53.8m premium referred to above,
- the unamortised surplus of £46.8m brought forward as a result of closure of swaps in the year to 31st March 2002,
- the cost of £13.0m recognised for the closure of a further £200m of interest rate swaps closed early in the year to 31st March 2004, and
- the residual balances of £4.5m arising from the cessation of the policy to hedge the capitalised value of the property lease portfolio.

**6. Tax on profit on ordinary activities**

	2004 £m	Restated <sup>1</sup> 2003 £m
Current tax:		
UK corporation tax at 30.0% (2003 30.0%)	121.8	210.4
Share of tax credit of joint ventures	–	(1.5)
Adjustments in respect of prior periods	(5.5)	(1.6)
	<b>116.3</b>	207.3
Relief for overseas taxation	(4.1)	(6.6)
	<b>112.2</b>	200.7
Overseas taxation	16.7	15.6
<b>Total current tax charge for the year</b>	<b>128.9</b>	216.3
Deferred taxation (see note 20):		
Share of deferred tax of joint ventures	–	(0.1)
Origination and reversal of timing differences	38.8	(24.3)
<b>Tax on profit on ordinary activities</b>	<b>167.7</b>	191.9
Tax credit included above attributable to exceptional non-operating items	(0.6)	(11.1)
Tax charge included above attributable to exceptional interest	–	27.6

**Reconciliation of current tax charge**

The UK standard rate of corporation tax for the year is 30.0% (2003 30.0%). The actual tax charge for the current year is below (previous year exceeds) the standard rate for the reasons set out in the following reconciliation:

	2004 £m	Restated <sup>1</sup> 2003 £m
<b>Profit on ordinary activities before taxation</b>	<b>581.0</b>	492.4
Tax on profit on ordinary activities at UK standard rate of corporation tax of 30.0% (2003 30.0%)	174.3	147.7
Factors affecting charge for the year:		
Changes in accelerated capital allowances	(4.8)	7.0
Changes in pension fund prepayment	(6.6)	6.3
Other timing differences	(15.6)	4.7
Intangibles amortisation	(6.5)	(4.5)
Disallowable expenses	3.8	19.4
Exceptional items	(11.9)	34.8
Foreign tax charged at higher rates than UK standard rate	1.7	2.5
Prior year adjustments	(5.5)	(1.6)
<b>Total current tax charge for the year</b>	<b>128.9</b>	216.3

<sup>1</sup>Restated on adoption of FRSS Application Note G on revenue recognition (see note 1(iv)).

**6. Tax on profit on ordinary activities continued**

Taxation on gains on properties used for the group's trade is expected to be deferred indefinitely or eliminated by capital losses.

The group has only recognised as a deferred tax asset overseas losses which are likely to be utilised in the next five years. Where there is no certainty of recovery no asset has been recognised. Unprovided deferred tax on losses net of amortisation is £20.2m (2003 £20.8m).

**7. Profit for the financial year attributable to shareholders**

The company has not presented its own profit and loss account as permitted by section 230 (4) of the Companies Act 1985.

Of the profit attributable to shareholders, £997.3m (2003 £1,274.3m) is dealt with in the financial statements of the company.

**8. Dividends paid and proposed**

	2004 p per share	2003 p per share	2004 £m	2003 £m
Interim	8.8	8.4	67.7	69.3
Final proposed	21.0	20.2	158.6	161.4
	<b>29.8</b>	28.6	<b>226.3</b>	230.7

**9. Earnings per share**

	2004	Restated <sup>1</sup> 2003
Basic earnings per share before exceptional items	48.2p	45.0p
Effect of exceptional items	4.7p	(9.2)p
Basic earnings per share	52.9p	35.8p
Diluted earnings per share before exceptional items	48.0p	44.9p
Effect of exceptional items	4.8p	(9.2)p
Diluted earnings per share	52.8p	35.7p

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

	2004 £m	Restated <sup>1</sup> 2003 £m
Earnings		
Earnings for basic and diluted earnings per share calculation before exceptional items	375.6	377.0
Exceptional items (see note 3)	37.0	(77.0)
Earnings for basic and diluted earnings per share calculation	412.6	300.0

<sup>1</sup>Restated on adoption of FRSS Application Note G on revenue recognition (see note 1(iv)).

**9. Earnings per share continued**

	2004 million	2003 million
Number of shares		
Weighted average number of shares used in basic earnings per share calculation	780.0	838.1
Dilutive effect of options	1.7	1.6
Weighted average number of shares used in diluted earnings per share calculation	781.7	839.7

The weighted average number of shares used in basic earnings per share calculation excludes 12.6m (2003 14.6m) shares held by The Boots ESOP Trust, the QUEST and unappropriated shares held by Boots Share Plan Trustees.

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

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	Product rights acquired £m	Total £m
<b>Cost</b>			
At 1st April 2003	31.0	304.4	335.4
Currency adjustments	–	(16.8)	(16.8)
Additions	0.9	0.2	1.1
<b>At 31st March 2004</b>	<b>31.9</b>	<b>287.8</b>	<b>319.7</b>
<b>Amortisation</b>			
At 1st April 2003	6.3	27.8	34.1
Currency adjustments	–	0.2	0.2
Charge for year	1.6	2.3	3.9
<b>At 31st March 2004</b>	<b>7.9</b>	<b>30.3</b>	<b>38.2</b>
Net book value at 31st March 2003	24.7	276.6	301.3
<b>Net book value at 31st March 2004</b>	<b>24.0</b>	<b>257.5</b>	<b>281.5</b>

Brands acquired by the company or by its subsidiaries, namely Clearasil and Dobendan and its derivatives are well known and well positioned in their markets and Boots Healthcare International (BHI) plans to improve this position from a programme of continued investment. BHI have therefore concluded that these brands have an indefinite useful economic life and they are not being amortised. As a consequence an annual impairment review is undertaken. The valuation of these brands is significantly in excess of latest carrying value of £246.8m. The majority of the other product rights are where the group has a licence to market other peoples' brands in specific countries.

**11. Tangible fixed assets**

Group	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
<b>Cost or valuation</b>				
At 1st April 2003	788.0	373.2	1,214.5	2,375.7
Currency adjustments	(0.9)	(0.5)	(0.9)	(2.3)
Additions	5.6	29.2	180.1	214.9
Disposals	(85.5)	(16.6)	(52.9)	(155.0)
Reclassifications and transfers	(7.0)	3.7	3.3	–
<b>At 31st March 2004</b>	<b>700.2</b>	<b>389.0</b>	<b>1,344.1</b>	<b>2,433.3</b>
<b>Depreciation</b>				
At 1st April 2003	61.0	218.6	579.6	859.2
Currency adjustments	(0.4)	(0.3)	(0.7)	(1.4)
Depreciation for year	8.4	28.4	88.1	124.9
Disposals	(1.6)	(11.1)	(36.1)	(48.8)
Reclassifications and transfers	(4.3)	2.9	1.4	–
<b>At 31st March 2004</b>	<b>63.1</b>	<b>238.5</b>	<b>632.3</b>	<b>933.9</b>
Net book value at 31st March 2003	727.0	154.6	634.9	1,516.5
<b>Net book value at 31st March 2004</b>	<b>637.1</b>	<b>150.5</b>	<b>711.8</b>	<b>1,499.4</b>

The cost of plant and machinery includes £21.4m (2003 £22.2m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £11.1m (2003 £10.1m) and for which the depreciation charge for the year was £3.6m (2003 £3.7m).

Land and buildings includes capitalised interest of £nil (2003 £4.6m).

Tangible fixed assets include payments on account and assets in course of construction of £121.4m (2003 £26.8m).

Land and buildings include investment properties as follows:

Valuation	£m
At 1st April 2003	68.7
Additions	0.6
Disposals	(69.3)
<b>At 31st March 2004</b>	<b>–</b>

**11. Tangible fixed assets continued**

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) 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.

	Group 2004 £m	Group 2003 £m
<b>Net book value of land and buildings comprises:</b>		
Freehold	527.5	563.8
Long leasehold (more than 50 years unexpired)	78.5	144.0
Short leasehold	31.1	19.2
	<b>637.1</b>	<b>727.0</b>
<b>Analysis of cost or valuation:</b>		
Cost	1,913.7	1,773.9
Valuation of properties – Directors 1993	511.1	524.5
– Independent 1989 and prior	8.5	8.6
Investment properties – Directors 2003	–	68.7
	<b>2,433.3</b>	<b>2,375.7</b>
<b>Value of tangible fixed assets under the historical cost convention:</b>		
Cost	2,179.4	2,106.4
Depreciation	926.2	852.2
<b>Net book value</b>	<b>1,253.2</b>	<b>1,254.2</b>

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
<b>Cost</b>				
At 1st April 2003	(8.8)	10.0	144.4	145.6
Additions	–	1.6	7.8	9.4
Disposals	–	–	(23.1)	(23.1)
Share of retained losses for the financial year	(1.4)	–	–	(1.4)
<b>At 31st March 2004</b>	<b>(10.2)</b>	<b>11.6</b>	<b>129.1</b>	<b>130.5</b>
<b>Provision/amortisation</b>				
At 1st April 2003	–	1.2	59.7	60.9
Disposals	–	–	(13.0)	(13.0)
Impairments	–	0.2	–	0.2
Amortisation of own shares – ESOP	–	–	1.9	1.9
– AESOP	–	–	5.8	5.8
<b>At 31st March 2004</b>	<b>–</b>	<b>1.4</b>	<b>54.4</b>	<b>55.8</b>
Net book value at 31st March 2003	(8.8)	8.8	84.7	84.7
<b>Net book value at 31st March 2004</b>	<b>(10.2)</b>	<b>10.2</b>	<b>74.7</b>	<b>74.7</b>

Company	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
<b>Cost and net book value</b>			
At 1st April 2003	209.0	1,178.4	1,387.4
Currency adjustments	–	(3.3)	(3.3)
Additions	–	18.4	18.4
Disposals	–	(295.8)	(295.8)
<b>At 31st March 2004</b>	<b>209.0</b>	<b>897.7</b>	<b>1,106.7</b>

The principal subsidiary undertakings are listed on page 68. The group also has a 50% investment in handbag.com Ltd., a joint venture. Minority shareholders have equity holdings in Boots Piramal Healthcare Ltd., incorporated in India.

**12. Fixed asset investments continued****Own shares**

At 31st March 2004 the number of own shares held by the group was 16.2m (2003 17.1m). These were held in various employee share ownership trusts. The maximum number of shares held was at the beginning of the year and represented 2.1% of the total issued share capital at that time. The market value of these shares at 31st March 2004 is £100.4m (2003 £90.9m) with a nominal value of £4.1m (2003 £4.3m). The number of shares under option to employees is 2.9m (2003 4.3m). Dividends have been waived by the trusts with exception of 3.6m appropriated shares. In total 2.1m (2003 2.3m) of the shares have been conditionally gifted to employees.

The employee share ownership trusts are considered for accounting purposes to be under the control of the company. Accordingly their results, assets and liabilities are included in the group financial statements of Boots Group PLC.

The group has taken advantage of exemptions under UITF17 'Employee Share Schemes' relating to the Inland Revenue approved SAYE schemes.

**13. Stocks**

	Group 2004 £m	Group 2003 £m
Manufacturing:		
Raw materials	28.4	27.5
Work in progress	10.3	10.0
Finished goods	89.1	81.4
	<b>127.8</b>	118.9
Retailing	563.0	508.5
Property development	–	11.2
	<b>690.8</b>	638.6

**14. Debtors**

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
<b>Falling due within one year:</b>				
Trade debtors	360.7	346.1	–	–
Owed by subsidiary undertakings	–	–	1,192.9	3.8
Owed by joint venture	0.1	0.1	–	–
Other debtors	52.8	90.6	–	–
Deferred tax asset (see note 20)	1.0	1.7	–	–
Prepayments and accrued income	87.9	97.6	3.3	0.8
Corporation tax	13.5	0.5	9.1	–
	<b>516.0</b>	536.6	<b>1,205.3</b>	4.6
<b>Falling due after more than one year:</b>				
Other debtors	163.9	110.8	502.6	–
Deferred tax asset (see note 20)	2.0	3.2	–	–
	<b>165.9</b>	114.0	<b>502.6</b>	–
	<b>681.9</b>	650.6	<b>1,707.9</b>	4.6

Other debtors include pension prepayments (see note 26).

**15. Current asset investments and deposits**

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Listed investments	0.1	0.1	–	–
Short term deposits	239.0	293.0	223.0	275.0
	<b>239.1</b>	293.1	<b>223.0</b>	275.0
Market value of investments listed on the London Stock Exchange	0.2	0.2	–	–

**16. Creditors: Amounts falling due within one year**

	Group 2004 £m	Restated <sup>1</sup> Group 2003 £m	Company 2004 £m	Company 2003 £m
Borrowings (see note 18)	156.5	186.9	141.9	1.3
Trade creditors	402.8	367.9	–	–
Due to subsidiary undertakings	–	–	137.9	–
Due to joint venture	3.2	–	–	–
Bills of exchange	1.5	1.0	–	–
Corporation tax	103.2	126.1	–	1.8
Taxation and social security (including VAT and other sales taxes)	29.1	33.0	0.1	–
Other creditors	135.5	97.7	2.6	7.3
Accruals and deferred income	144.9	181.6	14.1	3.3
Dividends (see note 8)	158.6	161.4	158.6	161.4
	<b>1,135.3</b>	<b>1,155.6</b>	<b>455.2</b>	<b>175.1</b>

<sup>1</sup>Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).  
The prior year for the group has been increased by £42.9m.

**17. Creditors: Amounts falling due after more than one year**

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Borrowings (see note 18)	341.6	361.1	308.8	308.8
Due to subsidiary undertakings	–	–	560.8	6.2
Due to joint venture	–	2.7	–	–
Other creditors	8.8	6.0	–	–
Accruals and deferred income	32.5	32.0	–	–
	<b>382.9</b>	<b>401.8</b>	<b>869.6</b>	<b>315.0</b>

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

**18. Borrowings**

	Notes	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Bank loans and overdrafts repayable on demand		112.9	149.7	141.9	1.3
Other bank loans and overdrafts	a	74.6	86.0	–	–
Variable rate notes – Sterling	b	0.5	0.5	–	–
5.5% eurobond 2009	c	300.0	300.0	308.8	308.8
Obligations under finance leases		10.1	11.8	–	–
		<b>498.1</b>	<b>548.0</b>	<b>450.7</b>	<b>310.1</b>
Amounts included above repayable by instalments		63.0	81.1	–	–
<b>Repayments fall due as follows:</b>					
Within one year:					
– Bank loans and overdrafts		134.5	166.2	141.9	1.3
– Obligations under finance leases		4.1	4.2	–	–
– Other borrowings		17.9	16.5	–	–
		<b>156.5</b>	<b>186.9</b>	<b>141.9</b>	<b>1.3</b>
After more than one year:					
– Within one to two years		23.1	21.9	–	–
– Within two to five years		18.5	39.2	–	–
– After five years		300.0	300.0	308.8	308.8
		<b>341.6</b>	<b>361.1</b>	<b>308.8</b>	<b>308.8</b>
		<b>498.1</b>	<b>548.0</b>	<b>450.7</b>	<b>310.1</b>

a Other bank loans and overdrafts include £52.8m (2003 £69.3m) that relate to the factoring of certain rental commitments over a ten-year period up to March 2007.

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

c The 5.5% eurobond 2009 was transferred from The Boots Company PLC to the new holding company, Boots Group PLC, on 20th January 2003 at its market value on that date of £308.8m.

The group has a number of interest rate swap agreements which convert fixed rate liabilities to floating rate. The fixed rate commitments effectively converted at 31st March 2004 are; £150m (2003 £150m) of the 5.5% eurobond 2009 and £30m (2003 £30m) of factored rental commitments. Further details are provided in the financial review.

All borrowings are unsecured.

## 19. Financial instruments and derivatives

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

The disclosures for short term debtors and creditors have been excluded from the numerical disclosures in sections (i) and (ii) below as permitted by FRS13 'Derivatives and Other Financial Instruments: Disclosures'.

### (i) Fair values of financial assets and liabilities

The fair values 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.

Note	Book value 2004 £m	Fair value 2004 £m	Book value 2003 £m	Fair value 2003 £m
<b>Primary financial instruments held or issued to finance the group's operations:</b>				
Cash in hand and bank	110.5	110.5	203.4	203.4
Current asset investments and deposits	239.1	239.2	293.1	293.2
Bank loans and overdrafts repayable on demand	(112.9)	(112.9)	(149.7)	(149.7)
Eurobond	(300.0)	(305.6)	(300.0)	(310.8)
Obligations under finance leases	(10.1)	(10.1)	(11.8)	(11.8)
Other borrowings (excluding currency swaps)	(75.1)	(77.6)	(86.5)	(92.6)
Other financial liabilities	a (0.6)	(0.6)	(0.5)	(0.5)
<b>Derivative financial instruments held to manage interest rate and currency profile:</b>				
Interest rate swaps	4.8	8.2	(10.1)	1.0
Forward Foreign Exchange Contracts	–	(0.3)	–	–

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

## 19. Financial instruments and derivatives continued

### (ii) Interest rate risk profile

The tables below reflect the interest rate and currency risk profile after taking into account the effect of interest rate swaps and forward foreign exchange contracts.

#### (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	(147.3)	(182.9)	(0.5)	(330.7)	5.9	4.6
Euro	(93.6)	–	(0.8)	(94.4)	–	–
Other	(73.6)	–	–	(73.6)	–	–
<b>At 31st March 2004</b>	<b>(314.5)</b>	<b>(182.9)</b>	<b>(1.3)</b>	<b>(498.7)</b>	<b>5.9</b>	<b>4.6</b>
Sterling	(385.0)	(1.1)	(0.5)	(386.6)	6.0	5.3
Euro	(92.7)	–	(0.8)	(93.5)	–	–
Other	(78.5)	–	–	(78.5)	–	–
<b>At 31st March 2003</b>	<b>(556.2)</b>	<b>(1.1)</b>	<b>(1.3)</b>	<b>(558.6)</b>	<b>6.0</b>	<b>5.3</b>

The sterling and euro financial liabilities on which no interest is paid have weighted average periods to maturity of 2.0 and 1.2 years respectively (2003 3.0 and 1.8 years).

#### (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	289.2	–	–	289.2	–	–
Euro	25.8	–	–	25.8	–	–
Other	39.4	–	–	39.4	–	–
<b>At 31st March 2004</b>	<b>354.4</b>	<b>–</b>	<b>–</b>	<b>354.4</b>	<b>–</b>	<b>–</b>
Sterling	391.5	0.3	0.2	392.0	2.0	–
Euro	63.2	3.5	0.4	67.1	2.0	–
Other	28.0	6.8	2.6	37.4	3.7	0.9
<b>At 31st March 2003</b>	<b>482.7</b>	<b>10.6</b>	<b>3.2</b>	<b>496.5</b>	<b>3.1</b>	<b>0.6</b>

Other financial assets on which no interest is received 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.

## 19. Financial instruments and derivatives continued

### (iii) Foreign currency exposure profile

Operations with a sterling functional currency have Euro and US dollar monetary (liabilities)/assets amounting to £(10.5)m (2003 £11.1m) and £0.8m (2003 £4.3m) respectively. Operations with non-sterling functional currencies have no monetary assets outside their local currencies (2003 US dollars £2.3m).

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

The group's undrawn committed facilities at 31st March 2004 of £462m (2003 £462m) expire in March 2005.

### (v) The maturity of borrowings

Details are shown in note 18.

### (vi) Hedging

Deferred gains of £8.6m resulting from the closure of interest rate swaps in respect of fixed rate borrowings are held in the balance sheet. It is expected that £2.4m will be recognised in the profit and loss account next year.

There were £23.6m (2003 £nil) nominal value forward foreign exchange contracts outstanding at 31st March 2004. These hedge the cost of foreign currency denominated purchases. All contracts expire within one year. On a mark to market basis, the contracts show a loss of £(0.3)m.

## 20. Provisions for liabilities and charges

Group	Deferred taxation £m	Vacant property provisions £m	Closure or termination of operations £m	Total £m
At 1st April 2003 as originally reported	127.5	9.6	36.7	173.8
Prior year adjustment (see note 1(iv))	(12.9)	–	–	(12.9)
At 1st April 2003 as restated	114.6	9.6	36.7	160.9
Transfer from debtors (see note 14)	(4.9)	–	–	(4.9)
	109.7	9.6	36.7	156.0
Currency adjustment	(0.6)	–	–	(0.6)
Profit and loss account	38.8	3.9	(6.6)	36.1
Utilised	–	(1.2)	(16.1)	(17.3)
Transfer to debtors (see note 14)	3.0	–	–	3.0
<b>At 31st March 2004</b>	<b>150.9</b>	<b>12.3</b>	<b>14.0</b>	<b>177.2</b>

## 20. Provisions for liabilities and charges continued

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.

The provision for closure or termination of operations relates to recognition of costs arising as a result of the Halfords disposal, the withdrawal from certain wellbeing services and the rationalising of the group's manufacturing facilities. The majority of the costs are expected to be incurred in the next two years.

	Group 2004 £m	Restated <sup>1</sup> Group 2003 £m
<b>Analysis of deferred taxation provision:</b>		
Accelerated capital allowances	<b>78.5</b>	74.2
Intangibles amortisation	<b>38.5</b>	33.1
Pension prepayments	<b>51.6</b>	44.8
Other items	<b>(17.7)</b>	(37.4)
	<b>150.9</b>	114.7
<b>Deferred tax asset:</b>		
Overseas losses (included in debtors – see note 14)	<b>3.0</b>	4.9

<sup>1</sup>Restated on adoption of FRSS Application Note G on revenue recognition (see note 1(iv)).

Unprovided deferred tax relating to property revaluations and rolled-over gains is not readily quantifiable but it is expected to be fully offset by available capital losses.

**21. Capital and reserves**

Group	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1st April 2003 as originally reported	203.5	–	260.3	5.6	310.8	1,219.2	1,999.4
Prior year adjustment (see note 1(iv))	–	–	–	–	–	(30.0)	(30.0)
At 1st April 2003 as restated	203.5	–	260.3	5.6	310.8	1,189.2	1,969.4
Retained profit for the financial year	–	–	–	–	–	186.3	186.3
New share capital of Boots Group PLC issued	–	0.3	–	–	–	–	0.3
Revaluation surplus realised on disposals	–	–	(15.0)	–	–	15.0	–
Revaluation reserve element of depreciation charge	–	–	(1.1)	–	–	1.1	–
Repurchase of shares (see note 22)	(9.6)	–	–	9.6	–	(259.9)	(259.9)
Currency adjustments	–	–	–	–	–	(14.8)	(14.8)
<b>At 31st March 2004</b>	<b>193.9</b>	<b>0.3</b>	<b>244.2</b>	<b>15.2</b>	<b>310.8</b>	<b>1,116.9</b>	<b>1,881.3</b>

The revaluation reserve includes £nil (2003 £4.6m) relating to investment properties.

The balance on the merger reserve at 31st March 2004 represents the difference between called up share capital of the Company and the called up share capital, share premium account and capital redemption reserve of the former holding company (The Boots Company PLC) at 20th January 2003, the date of the capital reorganisation.

Goodwill set off against reserves is £394.3 (2003 £394.3m)

Company	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st April 2003	203.5	–	5.6	992.3	1,201.4
Issue of shares in Boots Group PLC	–	0.3	–	–	0.3
Retained profit for the financial year	–	–	–	771.0	771.0
Repurchase of shares (see note 22)	(9.6)	–	9.6	(259.9)	(259.9)
<b>At 31st March 2004</b>	<b>193.9</b>	<b>0.3</b>	<b>15.2</b>	<b>1,503.4</b>	<b>1,712.8</b>

**22. Share capital**

	Number of shares 2004 million	Number of shares 2003 million	2004 £m	2003 £m
Ordinary shares of 25p each:				
Authorised	<b>1,200.0</b>	1,200.0	<b>300.0</b>	300.0
Allotted, called up and fully paid	<b>775.5</b>	813.8	<b>193.9</b>	203.5

  

Shares allotted during the year	Number million	Nominal value £m	Consideration £m
Option schemes	0.1	–	0.3

**Share repurchase**

During the year to 31st March 2004 38.3m ordinary shares were purchased and subsequently cancelled at prices ranging from 610p per share to 750p per share, with an average of 673p per share. The total cost of the purchases was £259.9m, which has been charged against distributable reserves. 0.4m of the repurchased shares were not cancelled until after the year end but the cancellation has been reflected in the allotted, called up and fully paid numbers above.

**Share options**

Under a savings-related scheme, options have been granted enabling employees to subscribe for ordinary shares at approximately 80% of market price. In 1999 a QUEST was established to acquire shares in the company as a means by which shares would be delivered to employees exercising the options granted. At 31st March 2004, options exercisable from 2004 to 2007 at between 485p and 808p per share were outstanding in respect of 2.9m shares (2003 4.3m).

Under an executive share option scheme, certain senior executives have been granted options to subscribe for ordinary shares after a period of three years from date of grant as long as performance targets are met. At 31st March 2004, options exercisable from 2004 to 2013 at between 576p and 710p per share were outstanding in respect of 4.7m shares (2003 3.9m).

**23. Reconciliation of operating profit to operating cash flows**

	2004 £m	Restated <sup>1</sup> 2003 £m
Group operating profit before exceptional items	551.2	554.8
Depreciation, amortisation and impairments of fixed assets	136.7	162.8
Loss on disposal of fixed assets	3.4	5.5
Increase in stocks	(53.7)	(77.1)
Increase in debtors, including pension prepayments	(43.5)	(27.0)
Increase/(decrease) in creditors	49.7	(26.2)
Other non-cash movements	11.3	(2.4)
Net cash inflow before expenditure relating to exceptional items	655.1	590.4
Exceptional operating cash flows (see below)	(17.3)	(8.1)
<b>Cash inflow from operating activities</b>	<b>637.8</b>	<b>582.3</b>

	2004 £m	2003 £m
<b>Exceptional operating cash flows:</b>		
Restructuring and integration costs paid	(17.3)	(8.1)
	<b>(17.3)</b>	<b>(8.1)</b>

<sup>1</sup>Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

**24. Analysis of net debt**

	As at 1st April 2003 £m	Cash flow £m	Other non-cash changes £m	Currency £m	As at 31st March 2004 £m
Cash at bank and in hand	203.4	(89.0)	–	(3.9)	<b>110.5</b>
Bank loans and overdrafts repayable on demand	(149.7)	36.7	–	0.1	<b>(112.9)</b>
Net (overdraft)/cash	53.7	(52.3)	–	(3.8)	<b>(2.4)</b>
Liquid resources	293.1	(53.5)	–	(0.5)	<b>239.1</b>
Obligations under finance leases	(11.8)	5.9	(4.2)	–	<b>(10.1)</b>
Other borrowings	(386.5)	11.0	–	0.4	<b>(375.1)</b>
Total	(51.5)	(88.9)	(4.2)	(3.9)	<b>(148.5)</b>

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 2004 £m	Group 2003 £m
Contracts placed	28.6	13.1

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

	Group Land and buildings £m	Group Other £m
Expiring:		
Within one year	7.3	0.8
Over one year and less than five years	21.0	12.4
Over five years	147.2	18.9
<b>At 31st March 2004</b>	<b>175.5</b>	<b>32.1</b>
Expiring:		
Within one year	13.8	0.8
Over one year and less than five years	18.5	2.6
Over five years	131.9	19.4
At 31st March 2003	164.2	22.8

## 25. Commitments and contingent liabilities

### (iii) Other financial commitments

On 1st November 2002 Boots entered into a contractual arrangement with Xansa Plc to provide IT application support and development services over a seven-year period. This arrangement includes a guaranteed minimum payment from Boots to Xansa of £35m, a proportion of which relates to capital expenditure which is not included in (i) above.

### (iv) 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 settlement by Knoll of consumer actions and claims of insurers and state attorneys general in the United States has been approved, and a settlement of most of the actions in Canada has been approved. 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.

### Boots Pension Scheme

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 2001. The next triennial actuarial valuation, as at April 2004, is in progress. The UK pension charge for the year has been determined under SSAP24 using the projected unit method and the results under SSAP24 were as follows:

Scheme assets and liabilities as at latest valuation date – 1st April 2001	UK
Market value of assets	£2,274m
Value of accrued liabilities	£1,960m
Funding level	116%

The key assumptions used in determining the accounting costs for the scheme are given below. The financial assumptions were derived from market yields on bonds at the valuation date.

%pa	UK 2001 Valuation
Pension increases	2.4%
General long-term pay increases	3.8%
Investment return	6.0%

The pension charge for the year for Boots Pension Scheme was £28m (2003 £31m). This comprises the regular cost of pensions, offset by amortisation of the surpluses and deficits disclosed by previous valuations over periods up to 13 years. The group contributed £58m (including £8m of pension augmentations) in the year to the Boots Pension Scheme. A pension prepayment of £172m (2003 £150m) is included within other debtors. These prepayments include £50m (2003 £50m) paid in advance.

### Other pension arrangements

In common with other companies, additional defined benefit pension arrangements exist for certain senior executives in the UK. Since 1st October 2000, new UK employees have been offered membership of Boots Stakeholder Pension Plan, a defined contribution pension arrangement. After five years' membership of this plan, employees have the opportunity to join Boots Pension Scheme. The cost of these arrangements was £3m (2003 £2m).

**26. Pensions continued****Total pension cost**

The overall pension charge for the year (excluding pension augmentations) comprises:

	Percent of Pensionable Pay 2004 %	Costs 2004 £m	Percent of Pensionable Pay 2003 %	Costs 2003 £m
Regular cost	15%	60	15%	65
Variations from regular cost	(6)%	(23)	(6)%	(25)
Notional Interest on prepayment	(2)%	(9)	(2)%	(9)
Boots Pension Scheme	7%	28	7%	31
Other UK pension arrangements		3		2
Overseas arrangements		3		3

**FRS17**

Whilst the financial statements for the year ended 31st March 2004 continue to include a pension charge and pension prepayment calculated under the principles of SSAP24, this new standard requires certain additional disclosures. These are noted below. The actuarial valuations with respect to UK schemes have been based on the most recent formal valuations (on page 65) and updated by the Scheme Actuary to 31st March 2004. The figures for overseas schemes are not material and have not been included.

FRS17 'Retirement Benefits' will change fundamentally the calculation and reporting of the cost of retirement benefits. The disclosures below relate to UK schemes.

The principal assumptions used by the independent qualified actuaries in updating the latest valuations of each of the schemes for FRS17 purposes were:

% pa	31 March 2004	31 March 2003	31 March 2002
Inflation	2.9%	2.6%	2.8%
Rate of general long-term increase in salaries	4.4%	4.1%	4.3%
Rate of increase to pensions in payment	2.8%	2.5%	2.7%
Discount rate for scheme liabilities	5.5%	5.5%	6.1%

**26. Pensions continued**

The market value of the assets in the UK schemes, the present value of liabilities and the resulting surplus together with the expected rates of return on the assets were as follows:

	Long-term rate of return expected at 31 March 2004 % p.a.	Value at 31 March 2004 £m	Long-term rate of return expected at 31 March 2003 % p.a.	Value at 31 March 2003 £m	Long-term rate of return expected at 31 March 2002 % p.a.	Value at 31 March 2002 £m
Bonds	5.0	2,831	4.8	2,676	5.4	2,375
Other net assets	4.0	5	3.5	18	4.0	17
Total market value of assets		2,836		2,694		2,392
Present value of scheme liabilities		(2,894)		(2,540)		(2,226)
(Deficit)/surplus in scheme		(58)		154		166
Related deferred tax asset/(liability)		17		(46)		(50)
Net pension (liability)/asset		(41)		108		116

Had the group adopted FRS17 the financial statements would have reflected the following amounts during the year:

	2004 £m	2003 £m
<b>For year ending</b>		
<b>Amounts charged to operating profit</b>		
Current service cost	76	73
Past service costs	12	5
Total operating charge	88	78
<b>Amounts included as other finance income</b>		
Expected return on pension scheme assets	128	130
Interest on pension scheme liabilities	(138)	(135)
Net return	(10)	(5)
<b>Amounts recognised in the Statement of Total Recognised Gains and Losses (STRGL)</b>		
Actual return in excess of expected return on pension scheme assets	33	198
Experience (losses)/gains arising on the scheme liabilities	(56)	23
Changes in assumptions underlying the present value of the scheme liabilities	(152)	(208)
Actuarial (loss)/gain recognised in STRGL	(175)	13

**26. Pensions continued**

<b>Analysis of movement in (deficit)/surplus during the year</b> <b>For year ended 31st March 2004</b>	<b>2004</b> <b>£m</b>	<b>2003</b> <b>£m</b>
Surplus in scheme at beginning of the year	154	166
Current service cost	(76)	(73)
Contributions	61	58
Past service costs	(12)	(5)
Other finance income	(10)	(5)
Actuarial (loss)/gain	(175)	13
(Deficit)/surplus in scheme at end of the year	(58)	154

**History of experience losses and gains**

<b>For year ended 31st March 2004</b>	<b>2004</b>	<b>2003</b>
Difference between expected and actual return on scheme assets:		
– Amount (£m)	33	198
– Percentage of scheme assets (%)	1.2	7.3
Experience (losses)/gains on scheme liabilities:		
– Amount (£m)	(56)	23
– Percentage of the present value of the scheme liabilities (%)	(1.9)	0.9
Total amount recognised in STRGL:		
– Amount (£m)	(175)	13
– Percentage of the present value of the scheme liabilities (%)	(6.1)	0.5

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at 31st March would be as follows:

**Group net assets and reserves reconciliation**

	<b>2004</b> <b>£m</b>	<b>Restated<sup>1</sup></b> <b>2003</b> <b>£m</b>
Net assets as reported	1,883	1,970
Benefit of including net pension (liabilities)/asset (UK schemes)	(41)	108
Less SSAP24 pension prepayment net of deferred tax	(85)	(70)
Net assets restated for FRS17	1,757	2,008
Profit and loss account reserve as reported	1,117	1,189
Benefit of including net pension (liabilities)/asset (UK schemes)	(41)	108
Less SSAP24 pension prepayment net of deferred tax	(85)	(70)
Profit and loss account reserve restated for FRS17	991	1,227

<sup>1</sup>Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

**27. Staff numbers and costs**

The average number of persons employed by the group:

	<b>2004</b> <b>Number of</b> <b>heads</b>	<b>2004</b> <b>Full time</b> <b>equivalents</b>	<b>2003</b> <b>Number of</b> <b>heads</b>	<b>2003</b> <b>Full time</b> <b>equivalents</b>
<b>Continuing operations</b>				
Boots The Chemists	58,732	36,715	60,722	39,260
Boots Opticians and Dentalcare	5,099	3,944	5,842	4,601
	63,831	40,659	66,564	43,861
Boots Healthcare International	3,434	3,307	3,214	3,089
Boots Retail International	900	863	1,062	1,020
Group and other	745	669	652	580
Continuing operations	68,910	45,498	71,492	48,550
Discontinued operations – Halfords	–	–	3,868	2,361
Total	68,910	45,498	75,360	50,911

Total number of persons employed by continuing operations at 31st March 2004 was 69,259 heads, 45,145 full time equivalents (2003 68,740 heads, 47,050 full time equivalents).

**The aggregate payroll cost was as follows:**

	<b>2004</b> <b>£m</b>	<b>2003</b> <b>£m</b>
Wages and salaries	891.5	919.8
Social security costs	67.0	61.6
Other pension costs	33.4	36.2
	991.9	1,017.6

**28. Remuneration of directors and directors' shareholdings**

Details of the remuneration, long term incentive plan interests, shareholdings, share options and pension entitlements of the directors are included in the directors' remuneration report on pages 32 to 41.

**29. Related party disclosures**

During the year the group had no material transactions with related parties other than £1.6m of additional funding to handbag.com limited a joint venture in which the group has a 50% interest in the share capital.

For details of investment in joint ventures see note 12.