Directors' remuneration report

This report has been prepared in compliance with the Directors Remuneration Report Regulations 2002 (the 'Regulations') and Schedule B of the Combined Code annexed to the Listing Rules of the Financial Services Authority.

The remuneration committee (the 'Committee')

The members of the Committee during the year were:

Dr M P Read (chairman from 4th November 2003)
J Bennink
Dr J G S Buchanan (resigned 24th July 2003)
J B McGrath (resigned 15th September 2003)
T C Parker (appointed 28th January 2004)
H Ploix
Sir Nigel Rudd (chairman until 15th September 2003)

The main responsibilities of the Committee are summarised in the corporate governance statement on page 30. The Committee appointed Towers Perrin to provide it with external advice in determining the appropriate remuneration, terms and conditions and bonus schemes for directors, and to assist it in reviews of remuneration policies and practices. Mr S G Russell, former chief executive, Mr R A Baker, the chief executive, Mr A P Smith, the former human resources director, and Mr P Bateman, human resources and operations director, have also advised the Committee when requested. Towers Perrin has also provided the Committee and the company with market data for executives and senior managers, and consulting support in reviewing pensions, long term incentive plans, and understanding current remuneration trends. The Committee is conscious of the need to ensure that no conflict of interest arises as a result of Towers Perrin advising both it and the company, and keeps that under review, but believes that the benefit of consistent advice and policies throughout the company outweigh the possible problems arising from such dual appointment. A summary of the terms under which Towers Perrin provide services to the Committee and to the company are available upon request from the company secretary and on the company's website.

Remuneration policies

In determining remuneration policies for the current, following and subsequent financial years, the Committee has followed the provisions of Section B of the Combined Code. Policy in relation to remuneration, and practice, inevitably evolves over time and the policy with regard to future years will be subject to ongoing review by the Committee.

In 2002 the Committee positioned executive directors' salaries and non-executive directors' fees at the market median in the light of independent assessment of market practices, and has done so in respect of directors appointed subsequently. The Committee adopted a policy that executive directors' salaries (assuming no change in responsibilities) would be increased annually in line with inflation, subject to total pay being benchmarked against the market every three years and intended that over time the proportion of executive directors' total remuneration that is dependent upon performance would become greater. The Committee has also introduced a personal performance measure into the executive directors' short term bonus scheme, in addition to the business performance tests.

In 2003 executive directors salaries were generally increased in line with inflation, but the salaries of Messrs. Bateman and Dodd were increased with effect from 1st December 2003 when Mr Bateman assumed responsibility for HR in addition to his existing responsibility for operations, and Mr Dodd, the chief financial officer, also assumed responsibility for property, to reflect those additional responsibilities.

The Committee has now determined that it is appropriate to undertake a thorough review of executive directors' remuneration, including bonus and incentive schemes, and will consult fully with shareholders, with a view to taking any proposals that require shareholder consent to the 2005 AGM. In the meanwhile the Committee decided, pending the outcome of that review, to make as few changes as possible to the executive directors bonus and incentive schemes in 2004/05. Accordingly, with one exception, the Committee has decided to operate the short term bonus scheme, the Long Term Bonus Scheme ('LTBS') and the Executive Share Option Plan on a similar basis to that operated in 2003/04. The exception relates to retest conditions in respect of share options. The Committee is mindful of the views of investors in respect of the retesting of the performance condition attached to the exercise of executive share options, and has decided that, in respect of any options granted in 2004/05, only one retest will be permitted, as opposed to the three retests currently permitted under the rules, and this retest will take place at the end of the fifth year, if the performance condition is not met after year three. In making this decision, the Committee has taken into account the announcement of accelerated investment in Boots The Chemists announced by the company on 26th March 2004, which will depress earnings per share in the short term in order to deliver medium term improvements in the company's performance.

The Committee's policy on termination of executive directors service contracts is described on page 34, and will be reviewed during the year as part of the review of service contracts.

The Committee believes that performance-related pay should form a significant proportion of executive directors' remuneration. In broad terms, if the group meets its target levels of performance then performance-related pay is likely to account for approximately 55% of the chief executive's remuneration (approximately 60% initially due to the grant of options of three times annual salary referred to on page 35) and 51% of that of the other executive directors. For top decile performance, performance-related pay is likely to account for a greater percentage – up to 75% for the chief executive and 73% for the other executive directors, depending on share price growth from the start of the performance period to the end. The actual benefit enjoyed by directors under the LTBS and under the Executive Share Option Plan will depend upon the company's share price, and cannot therefore be determined in advance. Share awards under the LTBS are satisfied by the transfer of shares purchased in the market by the Boots Employee Trust at various prices, usually shortly after the commencement of the performance period, but currently the trust holds surplus shares and no shares have been purchased for several years.

Non-executive directors do not participate in any bonus or share option schemes.

Bonus schemes provide an opportunity for executive directors and senior managers to receive additional rewards, if and only if, personal and business performance meets specified objectives and targets. The way that business performance is measured for bonus and share option schemes for executive directors and senior managers flows from, and is consistent with, business strategy, and with the board's governing objective of maximising the value of the company for the benefit of shareholders and is described below.

The short term executive bonus 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, and also rewards personal performance. The maximum short term bonus that can be earned is (in the case of the chief executive) 100% of base salary, and (for all other executive directors) 75%. One third of the available bonus depends on individual performance against personal targets, and two thirds depends upon business performance targets for operating profit (one-third of the available bonus), sales and return on capital (one-sixth each). Achieving the stretch targets set by the Committee on all business measures would generate a bonus of 75% of the maximum bonus available for those measures. The business targets have been chosen for their relevance in driving short term performance of the business.

The Long Term Bonus Scheme provides executive directors with a maximum potential bonus award (MPBA) worth up to 125% of base salary, and provides a direct link between the pay of executive directors and the creation of value for shareholders by rewarding directors for the company's performance in terms of total shareholder return (TSR) over a three or four-year performance period relative to a peer group of ten other leading companies which the Committee consider to be appropriate comparators by virtue of their size and markets in which they operate. TSR was chosen as the appropriate performance measure for the LTBS as it aligns the interests of the executive with the actual return received by shareholders. TSR measures the return to shareholders in terms of share price movement and the value of dividends as if reinvested when paid. It is derived, using data from the FTSE TRI index, by calculating the percentage growth in the index during the performance cycle based on the average of the index for the quarter preceding the commencement and the average of the index for the final quarter. The Committee believes this to be a transparent and well recognised way of doing so.

For the performance cycles which commenced in 1999 and thereafter a MPBA is calculated for all 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 following scale:

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 affected by share price movement over the performance period. Performance cycles commence on 1st April. The performance cycles that commenced in 1999 and 2000 were four-year cycles. For these performance cycles, 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.

No performance cycle commenced in 2001 and the performance cycles which commenced in 2002 and thereafter are three-year cycles. For these cycles the whole of the award is payable in shares.

Directors who join the company participate pro rata in performance cycles that have more than one complete year to run, but the Committee decided in the case of Mr Baker to calculate the MPBA for those performance cycles using the average share price prior to the date of his joining or the average share price for the three months prior to the commencement of the performance cycle whichever was the higher, resulting in a lower MPBA than would otherwise have been the case.

The peer group comprises those companies that the Committee considers provide the best comparators for performance given the mix of businesses carried on by the company, and the peer group is reviewed before each performance cycle to maintain its relevance. For the three-year period from 1st April 2004 the relevant peer group is:

Alliance UniChem	Reckitt Benckiser
Dixons	J Sainsbury
Great Universal Stores	Smith & Nephew
Kingfisher	Tesco
Marks & Spencer	WH Smith

Dixons has now replaced Debenhams in the peer group following the acquisition of Debenhams by Baroness Retail Consortium and its subsequent delisting.

Under the Executive Share Option Plan executive directors (and other employees) can be granted options to subscribe for ordinary shares in the company. The maximum number of options that can be granted under the plan to any executive director in any financial year of the company is options having an exercise price of twice the annual basic salary of the director. Grants are not normally expected to exceed one times annual salary. Options granted to executive directors must be subject to the satisfaction of a performance condition.

The Executive Share Option Plan aligns returns to shareholders with reward to executives but only if share price growth is achieved and if a performance target is met. The value of the options is directly linked to share price movement. The condition imposed in respect of all options granted to date is average annual growth in earnings per share (EPS) over the relevant period at least equal to the increase in the index of retail prices plus 3% calculated as follows: Base EPS is the EPS for the financial year preceding the performance cycle. An EPS target is calculated each year by applying the following formula: Base EPS x (100 + increase in RPI + y) where y is 3 in year one, 6 in year two and 9 in year three and so on. Target EPS for the performance cycle is determined by taking the average of the annual EPS targets during that cycle.

If the average of the actual EPS over the performance cycle equals or is greater than the target EPS, the performance condition is met. If the performance condition is not met, then for options granted prior to 2004/05 performance is re-tested annually until the end of the sixth year using the same methodology. If the performance condition has still not been met at the end of the sixth year, the options lapse. For options granted in 2004/5 if the performance condition is not met at the end of the third year then only one retest at the end of the fifth year will be permitted, and if the performance condition has not been met by then, the options will lapse. The EPS performance measure in the share option scheme was chosen because it provides an absolute (as opposed to relative) financial measure of company performance and complements the TSR performance measure in the LTBS. RPI is taken from the index published in March each year, and EPS is calculated in accordance with FRS14 'Earnings Per Share' which the Committee believes to be a transparent and well recognised way of doing so.

The Committee believes that share ownership provides an effective way to align the interests of shareholders and executives. For all performance periods commencing on or after 1st April 2002 the whole of an executive director's long term bonus is payable in shares of the company; the executive directors participate in a share option plan, and the Committee has adopted a policy of requiring executive directors over time to achieve a holding in the company's shares having a value equivalent to their base salary.

Share options granted under the SAYE share option scheme are not subject to performance conditions and, given the 'all employee' nature of the scheme and its revenue-approved status, it would not be appropriate to do so. No SAYE share option grants have been made since 1999.

It is the practice of the board to maintain contact where appropriate with its major shareholders about remuneration issues.

Non-executive directorships

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 one such appointment where no conflict of interest arises, and to retain the fees received. None of the executive directors currently holds any such appointment.

Contracts of service

The chairman, Sir Nigel Rudd, has and the previous Chairman, Mr J B McGrath (who retired as Chairman and from the board on 15th September 2003), had an agreement with the company dated 19th March 2004 and 18th May 2001 respectively relating to their services as Chairman. Mr McGrath's appointment was and Sir Nigel Rudd's appointment is terminable by either party without notice or compensation.

Each of the other non-executive directors has a written letter of appointment with the company, also terminable by either party without notice or compensation.

Each director is required to stand for reappointment every three years and may be required to stand for reappointment at an earlier date in order to satisfy the provisions in the company's articles of association that not less than one third of the board seek reappointment at each AGM. The articles of association of the company contain provisions relating to earlier vacation of office without notice.

Each of the executive directors has a service contract which terminates when the director in question reaches the age of 60. With the exception of Mr R A Baker all executive directors' service contracts are terminable by the company on one years notice and the Committee has determined that one years notice is the appropriate period of notice to be given to an executive director. Exceptionally, however, in circumstances such as the appointment of a chief executive from outside the company, the Committee may consider an initial period of greater security to be appropriate and agree that the one years notice should not be given before the first anniversary of appointment. The Committee took this view in respect of the appointment of Mr R A Baker, who joined the company as chief executive on 15th September 2003. Mr Baker's contract will be terminable on one years notice from 15th September 2004.

Details of the contracts of executive directors who served during the year are as follows:

	Date of contract	Unexpired term	Notice period	Provision for compensation
R A Baker	8th August 2003	1 year rolling from 15th September 2004	1 year[1]	See below
P Bateman	25th July 2002	1 year rolling	1 year	Nil
H Dodd	4th June 2003	1 year rolling	1 year	Nil
S G Russell	25th July 2002	Terminated on 31st May 2003	1 year	Nil
A P Smith	10th April 2001	Terminated on 31st October 2003	1 year	Nil

[1]Notice not to be given before 15th September 2004

With the exception of Mr R A Baker, none of the above contracts contain provisions relating to compensation on termination, and in the event of any service contract being terminated by the company giving less than the contractual period of notice the requirement for the director to mitigate their loss where appropriate has been taken into account in determining any resulting compensation and that remains the policy of the Committee. In the case of Mr R A Baker, however, the company has agreed provisions relating to pay in lieu of notice under which if Mr R A Baker's contract is terminated with less notice than his contract provides, then he will receive 85% of the salary, pension and short term bonus and other benefits he would have received had he been given the notice to which he was entitled under his contract, but without receiving any compensation for any loss of long term incentives or share options.

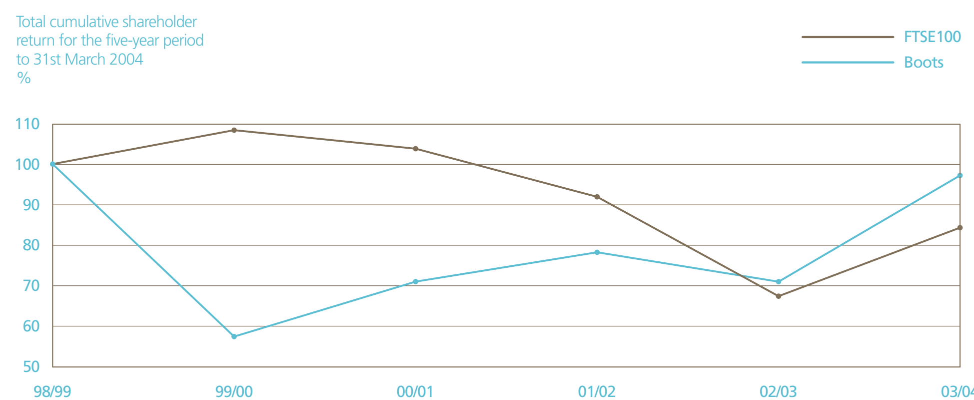
The company announced in December 2002 that it was seeking to appoint a new chief executive to succeed Mr S G Russell. Following that announcement, the Committee agreed terms with Mr S G Russell under which he would, subject to him remaining in office as chief executive until 31st July 2003, or until such earlier date as the company wished him to step down, receive his pay and benefits until 31st July 2003, and then, on leaving the company, receive £757,732 in compensation for loss of office, being the value of one years salary, short term bonus and car allowance, be credited with one years additional service in his pension arrangements and receive the other payments identified on page 37. The company also agreed that he would continue to participate in Long Term Bonus Scheme performance periods ending on or before 31st March 2005. Mr Russell stood down as chief executive on 31st May 2003 and the company has honoured the arrangements made with him. The Committee believes that, in the circumstances, the arrangements were entirely appropriate, and that they enabled Mr Russell to continue to serve as chief executive during a difficult period until the appointment of Mr R A Baker had been announced.

The terms on which Mr Baker joined the company were announced on 1st May 2003. The Committee agreed that he would on joining receive share options of three times his annual salary. Accordingly, a grant of twice annual salary was made under the Executive Share Option Scheme, and a grant of once times salary under his individual option plan, an arrangement identical in all respects to the Executive Share Option Scheme, made pursuant to paragraph 13.13A of the Listing Rules, and details of those arrangements are set out on page 40. It was also agreed with Mr Baker that he would receive £400,000 compensation for loss of his part vested future stock grants from Asda (payable in two instalments and repayable if he should leave the company's employment of his own volition within two years) and £244,375 to compensate him for the proportion of his projected short term bonus with Asda that related to the period before he left Asda's employment. He was also guaranteed a minimum bonus under the short term bonus scheme for 2003/04 of 50% of salary earned in that year to reflect the fact that most of the plans for the second half of that year were in place before he joined, although in fact the bonus actually earned as a result of the company's performance was greater than the sum guaranteed. It was also agreed that the company would meet the reasonable costs of relocation. The Committee considered these arrangements were necessary to facilitate the recruitment of Mr Baker in the unusual circumstances in which the recruitment took place.

On 31st October 2003, Mr Smith resigned from the board following his redundancy on the combination of the roles of HR director and group operations director, and the appointment of Mr Bateman to that post, and received £526,246 compensation for loss of office, being the equivalent of ten months salary, a redundancy payment, and the estimated value of other benefits, including short term bonus, that he would have received had he been given ten months notice. Mr Smith will participate (pro rata) in the Long Term Bonus Scheme performance periods ending on or before 31st March 2005, and his pension arrangements were credited with ten months additional service. Mr Smith and certain of his dependants also agreed with the company to surrender their accrued entitlements under the unfunded unapproved Retirement Benefit Scheme, in which Mr Smith had participated since he joined the company for £352,512, being the sum agreed by actuaries as the value of those benefits. In addition the company met the cost of Mr Smith's receiving legal and financial advice and the cost of providing life cover for ten months equivalent to that to which he would have been entitled under the funded unapproved death benefit scheme in which he participated.

Details of the payments paid to Mr Russell and Mr Smith upon termination of their contracts are set out in the emoluments table on page 37.

Performance graph The following graph, required by the Regulations, shows the total shareholder return over the five-year period to 31st March 2004 for the company's shares and the FTSE100 index. The FTSE100 is considered to be an appropriate index for comparison as the company forms part of that index, investors in the company are likely to regard other FTSE100 companies as alternative investments, and investors are familiar with it.



The following table sets out dilution information for options under discretionary and non discretionary schemes for the year and for the previous nine years in accordance with the best practice suggestion contained in the NAPF corporate governance policy.

	Options over new shares outstanding at period start	Options granted over new shares	Options exercised over new shares	Options lapsed over new shares	Obligation transferred to QUEST (purchased shares)	Options outstanding over new shares at period end	Issued share capital[1] at period end	Options outstanding as % of issued share capital
1994/95 – SAYE	10,906,780	3,054,746	1,594,018	520,863		11,846,645	948,922,864	1.248
– Exec	4,558,000	1,285,000	807,500	200,000		4,835,500	948,922,864	0.510
– Total	15,464,780	4,339,746	2,401,518	720,863		16,682,145	948,922,864	1.758
1995/96 – SAYE	11,846,645	2,228,376	1,469,013	1,300,909		11,305,099	953,784,198	1.185
– Exec	4,835,500	0	1,297,000	257,500		3,281,000	953,784,198	0.344
– Total	16,682,145	2,228,376	2,766,013	1,558,409		14,586,099	953,784,198	1.529
1996/97 – SAYE	11,305,099	3,515,062	1,320,113	680,459		12,819,589	906,070,964	1.415
– Exec	3,281,000	0	953,000	70,000		2,258,000	906,070,964	0.249
– Total	14,586,099	3,515,062	2,273,113	750,459		15,077,589	906,070,964	1.664
1997/98 – SAYE	12,819,589	5,209,165	1,648,199	1,001,787		15,378,768	912,910,817	1.685
– Exec	2,258,000	0	1,357,500	22,500		878,000	912,910,817	0.096
– Total	15,077,589	5,209,165	3,005,699	1,024,287		16,256,768	912,910,817	1.781
1998/99 – SAYE	15,378,768	4,169,672	1,870,144	917,512		16,760,784	915,194,961	1.831
– Exec	878,000	0	414,000	0		464,000	915,194,961	0.051
– Total	16,256,768	4,169,672	2,284,144	917,512		17,224,784	915,194,961	1.882
1999/00 – SAYE	16,760,784	6,500,755	61,354	3,046,961	20,153,224	0	899,306,315	0.000
– Exec	464,000	0	50,000	0		414,000	899,306,315	0.046
– Total	17,224,784	6,500,755	111,354	3,046,961	20,153,224	414,000	899,306,315	0.046
2000/01 – SAYE	0	0	0	0		0	899,514,815	0.000
– Exec	414,000	0	208,500	0		205,500	899,514,815	0.023
– Total	414,000	0	208,500	0		205,500	899,514,815	0.023
2001/02 – SAYE	0	0	0	0		0	894,617,815	0.000
– Exec	205,500	1,893,843	123,000	0		1,976,343	894,617,815	0.221
– Total	205,500	1,893,843	123,000	0		1,976,343	894,617,815	0.221
2002/03 – SAYE	0	0	0	0		0	815,084,397	0.000
– Exec	1,976,343	2,095,519	17,500	90,362		3,964,000	815,084,397	0.486
– Total	1,976,343	2,095,519	17,500	90,362		3,964,000	815,084,397	0.486
2003/04 – SAYE	0	0	0	0		0	775,907,597	0.000
– Exec	3,964,000	1,891,857	62,500	1,092,078		4,701,279	775,907,597	0.606
– Total	3,964,000	1,891,857	62,500	1,092,078		4,701,279	775,907,597	0.606

[1] Issued share capital at period end includes shares (if any) that have been repurchased before, but not cancelled until after, the year end.

Auditors' report The auditors are required to report on information contained in the following section of the report with the exception of directors' shareholdings.

Directors' remuneration 2003/04 Analysis of emoluments and short term bonuses are shown below, together with payments made to Mr S G Russell and Mr A P Smith on termination of employment. Details of long term bonuses are shown on pages 38 and 39, outstanding share options and gains on share options are shown on pages 39 and 40 respectively, shareholdings and pension entitlements on page 41.

Short term executive bonus scheme Performance against business targets during the year was such that a bonus equal to 80.26% of salary was earned by Mr Baker, and 56.45% of salary was earned by Messrs Bateman and Dodd.

Other benefits Executive directors are entitled to a company car, or payment in lieu, sick pay, holidays, which overall provide a reasonably competitive package comparable with that provided by other major companies. Mr R A Baker, Mr P Bateman and Mr H Dodd participate and Mr A P Smith participated in a funded unapproved death benefit scheme which provides benefits on death comparable to those contained in the company's approved pension schemes in respect of income above the revenue income 'cap'. Mr J B McGrath was provided with the use of a car, driver and fuel for use when travelling on the company's business, and when travelling between his residence and the company's premises, and Sir Nigel Rudd is reimbursed the expenses that the Committee consider reasonable for providing his own car and driver whilst travelling on the company's business.

Analysis of directors' emoluments An analysis of directors' emoluments relating to the salary and fees, short term executive bonus and other benefits (other than share options, LTBS and pensions) for the year to 31st March 2004 is shown below:

£000	Salaries and fees	Short term bonuses	Other benefits	Compensation for loss of office	Commutation of accrued unapproved pension entitlements	Other payments on termination	Total 2004	Total 2003
R A Baker (from 15th September 2003)	341	273	472[1]	–	–	–	1,086	–
P Bateman	317	179	82[2]	–	–	–	578	355
J Bennink	35	–	–	–	–	–	35	32
G N Dawson (from 15th September 2003)	28	–	–	–	–	–	28	–
H Dodd	373	211	17	–	–	–	601	446
T C Parker (from 28th January 2004)	7	–	–	–	–	–	7	–
H Ploix	37	–	–	–	–	–	37	32
Dr M P Read	37	–	–	–	–	–	37	32
Sir Nigel Rudd (deputy chairman until appointed chairman on 15th September 2003)	181	–	–	–	–	–	181	55
Dr J G S Buchanan (resigned 24th July 2003)	17	–	–	–	–	–	17	34
B Clare (resigned 31st January 2003)	–	–	–	–	–	–	–	2,142[3]
F M Harrison (resigned 6th November 2002)	–	–	–	–	–	–	–	19
J B McGrath (chairman until retirement from the board on 15th September 2003)	375	–	2	–	–	–	377	251
K S Piggott[4] (retired from the board on 31st December 2002)	–	–	–	–	–	–	–	361
S G Russell (resigned 31st May 2003)	206	–	7	758	–	131[5]	1,102	786
A P Smith[6] (resigned 31st October 2003)	166	–	11	526	353	46	1,102	369
	2,120	663	591	1,284	353	177	5,188	4,914

[1]Mr R A Baker's other benefits include £200,000 and £244,375 compensation for the loss of his part vested Asda share options and short term bonus respectively, and £17,422 being the cost of legal advice met by the company.

[2]Mr P Bateman's other benefits include £60,000 in respect of relocation expenses relating to the sale of his former home in Brussels.

[3]Mr B Clare's salary for 2003 Included nine months salary in lieu of notice and £67,500 in respect of short term bonus. He and certain of his dependants surrendered their entitlements under the unfunded unapproved retirement benefit scheme, and received a total of £1.2m being the actuarial value of these benefits. The company also met the cost of certain legal and financial advice given to Mr B Clare.

[4]Mr K S Piggott remained an employee of the company until 31st December 2003 and received, in addition to the sums stated in this table, a salary of £135,938 and short term bonus of £38,579 in respect of the period from 1st April 2003 to 31st December 2003, and a salary of £45,313 and short term bonus of £11,328 in respect of the period from 1st January 2003 to 31st March 2003.

[5]Mr S G Russell's other payments on termination include accrued holiday pay of £71,308, a retirement payment of £42,792, and £16,500 being the cost of legal advice met by the company.

[6]Mr A P Smith's compensation for loss of office included ten months salary in lieu of notice and 201,167 in respect of short term bonus. He and certain of his dependants surrendered their entitlements under the unfunded unapproved retirement benefit scheme, and received a total of £352,512 being the actuarial value of these benefits. The company also met the cost of certain legal, outplacement and financial advice given to Mr A P Smith and of ten months life cover.

The aggregate of directors' emoluments before compensation for loss of office, commutation of pension entitlements and other payments on termination was £3,375,000 (2003 £3,493,000).

The base salaries of executive directors at the year end and at 26th May 2004, the latest practicable date before the printing of this report were as follows:

	At 31st March 2004	At 26th May 2004
R A Baker	£625,000	£644,000
H Dodd	£400,000	£400,000
P Bateman	£350,000	£350,000

Long term bonus scheme ('LTBS')

TSR performance measure An explanation of the TSR performance measure is shown on page 33.

Entitlements based on completed long term bonus periods

Outcome of the 2000/2004 performance cycle At the end of the cycle for the four-year period up to 31st March 2004 the relevant peer group was identical to that shown on page 33 except for the inclusion of Debenhams instead of Dixons.

For this cycle, the company achieved position five in the league table. Accordingly, the long term bonus units earned by executive directors including amounts relating to periods of service before appointment to the board and service after retiring from the board are set out in the following table and will be paid in June 2004. For serving directors, half will be paid in cash and the remaining half will be paid as a grant of a share award as shown below. The share price used to determine the MPBA was 515p (2002/03 927p) and the share price used to determine the value of the cash payment was 711p (2002/03 602p).

2003/04 Number of shares	MPBA 2000/04	MPBA 1999/03	Earned Units 2000/04	Earned Units 1999/03	Share award 2000/04	Share award 1999/03	Cash 2000/04 £000	Cash 1999/03 £000
R A Baker	–	–	–	–	–	–	–	–
P Bateman	33,107	10,580	11,919	–	5,960	–	42	–
H Dodd	42,476	11,799	15,291	–	7,646	–	54	–
S G Russell	121,359	50,566	43,689	–	–	–	311	–
A P Smith	38,653	12,716	13,915	–	–	–	99	–
	235,595	85,661	84,814	–	13,606	–	506	–

During the year, Mr K S Piggott, a former executive director, earned 26,213 long term bonus units. The award will be paid wholly in cash in June 2004, amounting to £186,213.

Share awards in respect of prior periods

For cycles ending in 2001/02 and earlier the entitlement to exercise the half paid as a share award was deferred, and only vested in the employee after three further years' employment. For cycles ending in 2002/03 and thereafter, share entitlements may be exercised immediately after grant for a period of twelve months.

Details of the share awards which have been granted during the year in respect of the cycle which was completed at the end of the previous financial year, and deferred share awards conditionally granted for previous cycles, are shown below. Shares that vested in the year and the cumulative total of shares outstanding at 31st March, or date of retirement are also shown below:

Number of shares	Granted 2003/04	Granted[1] 2001/02	Granted[1] 2000/01	Exercised total	Cumulative total
R A Baker	–	–	–	–	–
P Bateman	–	–	–	–	–
H Dodd	–	–	–	–	–
S G Russell	–	–	17,858	–	17,858[2]
A P Smith	–	–	3,041	(3,041)	–
	–	–	20,899	(3,041)	17,858

[1] granted on deferred basis
[2] date of resignation

Part of Mr A P Smith's 2000/01 entitlements accrued before he was appointed to the board on 1st April 2001.

Mr Russell exercised his 2000/01 entitlement during the year after ceasing to be a director of the company.

The value of the award is not determined until the vesting date, which for the entitlements granted in 2001/02 is June 2004.

The value of share awards in respect of prior periods which have vested and been exercised in the year as disclosed above is shown in the table below:

	Date interest awarded	Share value at date of award	Share value at vesting 2004	Share value at exercise 2004	Value received 2004 £000	Value received 2003 £000
R A Baker	–	–	–	–	–	
P Bateman	–	–	–	–	–	–
H Dodd	–	–	–	–	–	–
S G Russell	1st April 1996	599p	626p	664.5p	119	73
A P Smith	1st April 1996	599p	626p	645.5p	20	9
					139	82

Performance conditions are described on page 33. The value of the shares received is based on the middle market price on the date of exercise of the share awards, and is the value upon which liability to income tax and National Insurance is calculated.

During the year, Mr Clare, Mr Piggott and Mr Thompson, all former directors, exercised share awards of 7,757, 7,058 and 18,140 respectively. The value received at the exercise date was £55,075, £44,944 and £121,175 respectively.

Potential entitlements under incomplete long term bonus periods
The MPBA (in shares) for cycles which commenced on 1st April 2002 and 1st April 2003 are shown below:

	MPBA At 31/03/03 2002-2005	MPBA Awarded in year 2003-2006	Total
R A Baker	61,808	105,517	**167,325**
P Bateman	51,424	68,681	**120,105**
H Dodd	69,225	82,418	**151,643**
K S Piggott	71,697	–	**71,697**
S G Russell	118,671[1]	141,484[2]	**260,155**
A P Smith	54,391[1]	65,018[2]	**119,409**
	427,216	463,118	**890,334**

[1]MPBA subsequently reduced pro rata to reflect an additional one years service in the case of Mr S G Russell and ten months service in the case of Mr A P Smith.
[2]lapsed upon cessation of employment.

The share price used to calculate the 2002-2005 and 2003-2006 MPBA's was 632p and 546p (617p in respect of Mr Baker) respectively. The outcome for these cycles and the related share awards will not be determined until June 2005 and June 2006 respectively. The share prices when the awards were first made were 672.5p on 1st April 2002 and 528p on 1st April 2003. Performance conditions are set out on page 33.

Share Options
The Executive Share Option Plan An explanation of the way the plan operates is shown on pages 33 and 34.

The exercise price of options granted under the scheme is the average of the market value of the shares in the three days preceding the grant of an option. The rules of the plan allow the exercise of options in the period between three and ten years from grant, subject to prior satisfaction of any performance condition stipulated at the time of grant. Upon exercise, the benefit received by the participant is derived from the increase in the market value of the company's shares in the period between grant and exercise. Gains arising from the exercise of share options are set out below. Executive share options may be exercised before the expiry of the initial three-year period following termination of employment by reason of redundancy or retirement or in such other circumstances of termination of employment as the Committee approves, subject to satisfaction of the performance conditions over the shorter period.

Options have been granted as follows:

Number of shares	2001/02 Awarded on 12/09/01 Option price 630p Exercisable between 12/09/04 and 11/09/11	2002/03 Awarded on 18/06/02 Option price 635p Exercisable between 18/06/05 and 17/06/12	Total at 01/04/03	2003/04 Awarded on 23/06/03 Option price 606p Exercisable between 23/06/06 and 22/06/13	2003/04 Awarded on 18/09/03 Option price 687p Exercisable between 18/09/06 and 17/09/13	Exercised 03/04	Lapsed 03/04	Total 03/04
R A Baker	–	–	–	–	181,950	–	–	181,950
P Bateman	26,428	40,944	67,372	49,504	–	–	–	116,876
H Dodd	–	55,118	55,118	59,405	–	–	–	114,523
S G Russell	91,269	94,488	185,757	–	–	–	–	185,757
A P Smith	39,682	43,307	82,989	46,864	–	–	–	129,853

All options are subject to the performance conditions set out on page 33.

During the year, share options held by Mr Clare (114,610) and Mr Thompson (150,193), both former directors lapsed. Mr K S Piggott held options over 112,641 shares at 31st March 2004.

Outcome of performance tests as at 31st March 2004

The performance test for options granted in 2001 (the first grant) was not met as at 31st March 2004.

Individual option plan – Mr R A Baker (the 'Plan')

The arrangements made with Mr Baker on joining are described on pages 34 and 35. On 18th September 2003 he received, as part of those arrangements, a grant of options of once his salary of £625,000 amounting to 90,975 shares at a price of 687 pence (the average of the market price for the three days preceding the grant) on terms identical to the options granted in 2003/4 under the Executive Share Option Plan, exercisable between 18th September 2006 and 17th September 2013 (subject to satisfaction of the performance condition). The provisions (if any) in the Executive Share Option Scheme (which also relate to the Plan) relating to the following matters cannot be altered to the advantage of Mr Baker without the prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange or regulatory treatment for participants in the Plan or for the company operating the scheme or for members of its group):

– The persons to whom, or for whom, securities, cash or other benefits are provided under the Plan (the 'participants').
– Limitations on the number or amount of securities, cash or other benefits subject to the Plan.
– The maximum entitlement for any one participant.
– The basis for determining a participant's entitlement to, and the terms of, securities, cash or other benefit to be provided and for the adjustment thereof (if any) in the event of a capitalisation issue, rights issue or open offer, sub-division or consolidation of shares or reduction of capital or any other variation of capital.

The Plan is not pensionable, and as previously stated, the Committee determined that the arrangements were necessary to facilitate the appointment of Mr Baker in unusual circumstances.

Mr Baker became eligible to receive benefits under the Plan on joining the company on 15th September 2003. No further grants can be made under the Plan. The performance condition is identical to that applied to grants under the Executive Share Option Plan, i.e. average annual growth in earning per share of at least RPI plus 3% over the performance period as described on pages 33 and 34.

The Boots SAYE Share Option Scheme

Under a savings-related scheme options may be offered to employees, including executive directors, enabling employees to subscribe for ordinary shares in the company at approximately 80% of the market price of those shares at the date of grant, subject to participation in a designated savings scheme. No options have been granted since July 1999, but certain executive directors hold options under that scheme as follows:

		At 31 March 2003	Awarded	Exercised	Lapsed	At 31 March 2004	Exercise price	Earliest date of exercise	Expiry date
S G Russell	@624p	2,704	–	–	2,704	–	–	–	–

Mr K S Piggott, a former director, held share options over 324 shares at 624p at 31st March 2004. Options over 341 shares at 808p lapsed during the year.

The market price of the company's shares at 31st March 2004 was 619.5p and the range of market prices during the year was 524.5p to 752.5p.

Directors' interests in share options on 26th May 2004 remain unchanged.

Gains on share options

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.

The total gains on share options exercised during the year was £nil (2003 £nil).

All Employee Share Ownership Plan (AESOP)

In the period to 31st March 2001 Boots established an AESOP to enable staff, including executive directors, to become shareholders in the company. Under the free share part of the plan, the executive directors were each given the opportunity to be awarded 40 shares (39 in 2003), the same number as any employee with average contracted hours of 35 or more per week. All the eligible executive directors opted to receive this award. Shares in this part of the AESOP must normally be held in trust on behalf of the employees for at least three years.

In the period to 31st March 2002 Boots implemented the partnership share element of the plan, giving employees including executive directors the opportunity to purchase shares from their pre-tax income, subject to a maximum of £125 per month, with effect from April 2002. Shares purchased under the partnership plan are included in total shareholdings in the table on page 41.

Directors' shareholdings
The beneficial interests of the directors in office at 31st March 2004 and their families in the share capital of the company at 31st March 2004 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 2004	Ordinary shares 2003
R A Baker	9,260[1]	–
P Bateman	383	173
J Bennink	4,126	–
G N Dawson	2,000	–[1]
H Dodd	1,203	1,000
T C Parker	6,340	–[1]
H Ploix	3,767	1,697
Dr M P Read	5,500	3,500
Sir Nigel Rudd	47,000	2,000

[1]at date of appointment

Included within the ordinary shares held are 203 shares purchased by both Mr P Bateman and Mr H Dodd respectively under the AESOP Share Investment Plan.

Each executive director was also deemed, as a potential beneficiary, to have an interest in the 1,051,363 (2003 1,423,769) 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 in 11,176,287 (2003 12,959,693) 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 in 3,582,746 (2003 2,465,201) ordinary shares of the company held by Boots Share Plan Trustees Limited, established to hold shares for employees in connection with the company's All Employee Share Ownership Plan (the AESOP). No director holds any loan capital.

The personal shareholdings of directors in office at 31st March 2004 remain unchanged on 26th May 2004, other than each of Mr P Bateman and Mr H Dodd now hold a further 21 shares purchased under the partnership share element of the AESOP, and the number of shares held by Boots (QUEST) Trustee Limited, the Boots ESOP Trust Ltd and the Boots Share Plan Trustees have reduced, thereby reducing directors' deemed interest.

Pension entitlement
All executive directors in office at 31st March 2004 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, subject to completing 20 years service and subject to revenue limits. Non-executive directors are not members of any company pension arrangements. Pension entitlement is calculated only on the salary element of remuneration.

Those directors who are subject to the earnings cap are also members of an unfunded unapproved pension arrangement which provides similar benefits on basic salary in excess of the earnings cap.

Details of pensions earned by the executive directors in office at 31st March 2004 or at date of retirement are shown below:

£000	Accrued pension at 31st March 2004	Increase in pension during the year to 31st March 2004 gross of inflation	Increase in pension during the year to 31st March 2004 net of inflation	Transfer value of accrued benefits at 31st March 2003	Transfer value of accrued benefits at 31st March 2004	Increase in transfer value of benefits less directors' contributions	Transfer value of net-of-inflation increase in accrued benefits less directors' contributions
R A Baker	11	11	11	–	136	119	119
P Bateman	43	21	21	295	636	326	292
H Dodd	20	12	11	98	257	142	128
S G Russell	404	27	17	7,009	7,616	602	310
A P Smith	56	13	12	504	687	176	134

The total accrued pension entitlement for Mr R A Baker, the highest paid director, at 31st March 2003 was £Nil.

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. Retained benefits from previous employments are taken into account. The increase in accrued pension during the year is after deducting the increase due to inflation, at the rate of 2.8%, 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.

Mr S G Russell left the board on 31st May 2003 and subsequently retired on 31st July 2003. The year end figures for Mr S G Russell are quoted at his date of retirement.

Mr A P Smith left the company on 31st October 2003 taking a deferred pension in respect of his benefits in the Boots Pension scheme and a payment of £352,512 was made to him in lieu of benefits he had accrued in the unapproved arrangements. The figures at 31st March 2004 relate to approved scheme benefits only.

By order of the board
Dr M P Read
Chairman of the board remuneration committee
26th May 2004