

Directors' remuneration report

Compliance

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 FSA.

Remuneration committee (the Committee)

The members of the Committee during the year were:

Dr M P Read (chairman)
T C Parker
J Bennink
H Ploix

The main responsibilities of the Committee are summarised in the corporate governance statement on page 43.

The Committee has appointed Kepler Associates 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. Sir Nigel Rudd, Chairman of the board, Mr R A Baker, the chief executive, Mr P Bateman, in his role as human resources and operations director, and Mr M Cutt, human resources director since October 2005, have also advised the Committee when requested. Kepler Associates have 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 in reviewing current remuneration trends. The Committee is conscious of the need to ensure that no conflict of interest arises as a result of Kepler Associates 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 Kepler Associates 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

Policy overview

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.

The objective of the Committee is to ensure that the remuneration of directors and of senior managers is adequate to attract, retain and motivate high calibre management.

In 2002, the Committee decided to position executive directors' salaries and non-executive directors' fees at the market median in the light of independent assessment of market practices. In 2004/05, the Committee undertook a thorough review of total remuneration and, after consultation with major shareholders, decided that market competitiveness of remuneration would in future be assessed primarily in terms of total remuneration, with less emphasis on base salary, and accordingly proposed new long term incentives. Executive directors' salaries (assuming no change in responsibilities) would thereafter be increased annually in line with inflation, subject to total pay being benchmarked against the market every three years, such that over time the proportion of executive directors' total remuneration that is dependent upon performance would increase.

The introduction of the performance share plan (PSP) and bonus co-investment plan (BCIP), approved by shareholders at the 2005 AGM, decreased reward for average performance, increased reward for superior performance, and rebalanced the incentive mix to reward long term out-performance.

Kepler Associates assisted the Committee in determining that the fair value of the long term incentive arrangements introduced in 2005, taking into account the total shareholder return (TSR) out-performance requirements for the performance share plan and the earnings per share (EPS) scale for the bonus co-investment plan, was in line with median for FTSE 100 companies. Assuming short term bonus is paid at target, and that the maximum permitted amount is invested in deposited shares, the rewards at constant share price are expected on average to be 25% of salary from the BCIP and 60% (75% for the CEO) from the PSP. The maximum potential rewards (excluding share price appreciation) are 100% of base salary from the BCIP and 200% of salary (250% for the CEO) from the PSP.

In broad terms, under current plans, if the group meets its target levels of performance, then performance-related pay is likely to account for approximately 60% of the chief executive's remuneration and 57% of that of the other executive directors. For top quartile performance, performance-related pay will account for around 80% of remuneration for the executive directors, depending on share price growth from the start of the performance period to the end.

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 value for shareholders.

The Committee believes that share ownership provides an effective way to align the interests of shareholders and executives. The Committee has adopted a revised policy requiring executive directors to achieve by 2010 (or within five years of appointment, if later), and retain, a holding in the company's shares having a value equivalent to one times (chief executive one and a half times) their base salary. Participation in the bonus co-investment plan by investment of at least one quarter of any short term bonus payment is mandatory for executive directors until the shareholding target has been met.

It is the intention of the company to provide benefits under the plans using existing shares purchased in the market by the Boots Employee Trust.

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

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

Remuneration policies 2005/06 – key elements of remuneration

Executive remuneration in the year comprises the following key elements:

- > Basic Salary;
 - > Short Term Executive Bonus Scheme;
 - > Bonus Co-Investment Plan;
 - > Performance Share Plan;
 - > Long Term Bonus Scheme;
 - > Executive Share Option Plan;
 - > Pension;
 - > Other benefits.
- } in respect of performance periods commencing before 1st April 2005

Each of these elements is described below:

Basic salary In June 2005, executive directors' salaries were generally increased in line with inflation.

Short term executive bonus scheme 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 targets derived at the beginning of the year from strategic plans. It also rewards personal performance. The maximum short term bonus that could be earned in the year 2005/06 was 100% of base salary. One-third of the available bonus depended on individual performance against personal targets, and two-thirds depended upon business performance targets for operating profit (one-third of the available bonus), sales and return on capital (one-sixth each). Achieving the targets set by the Committee on all business measures would generate a bonus of 50% of the maximum bonus available for those measures. The business targets were chosen for their relevance in driving short term performance of the business. The Committee has decided in respect of 2006/07 that, if the proposed merger with Alliance UniChem becomes effective, then performance to the effective date of the merger will be measured, and business targets for the remainder of the year reviewed to ensure their continued relevance.

Bonus co-investment plan (BCIP) Under the bonus co-investment plan, executive directors are entitled to invest up to 50% of their short term bonus for the previous year in Boots shares in return for a matching opportunity of up to 2:1. The size of the match depends on EPS growth over a three-year performance cycle. The BCIP aligns executives' interests with that of shareholders as the initial investment (deposited shares) and any matching shares are exposed to share price movement over the performance period. The BCIP was not operated in 2005 as executive directors received no short term bonus for 2004/05, but, had it operated, the performance condition would have been real average annual growth in EPS. Annual EPS growth is calculated as follows: EPS in the final year of the performance period is divided by EPS in the year immediately preceding the start of the performance period; the resulting number is then annualised. For the first cycle of the plan, a proportion of matching shares would have vested provided the annual growth in EPS exceeded RPI by more than 3%. The maximum match is earned if annualised EPS growth exceeds RPI by 8% or more with pro rata matching in between as indicated in the following table:

EPS growth pa % above RPI	3	3.5	4	4.5	5	5.5	6	6.5	7	7.5	8
Match earned per deposited share	0	0.2	0.4	0.6	0.8	1	1.2	1.4	1.6	1.8	2

If EPS performance did not exceed RPI plus 3% over the initial three-year performance cycle, the matching awards would have lapsed. There is no retest.

The EPS performance target range for the BCIP of between RPI plus 3% and RPI plus 8% per annum has been calibrated using median and upper quartile historical EPS growth rates for UK retailers. The Committee believes that the targets are stretching, but will review the targets at the beginning of each cycle to ensure they remain so. Assuming short term bonus is paid at target and that the maximum permitted amount is invested in deposited shares, the fair value of awards is equal to 25% of salary from the BCIP and the maximum potential rewards are 100% of base salary (excluding share price appreciation). The same performance condition will be imposed on matching awards made in respect of the 2006/09 performance cycle. However, the performance condition will be reviewed and, if necessary, adjusted after the proposed merger with Alliance UniChem, if approved, becomes effective. The rules of the plan allow the performance target to be changed in such circumstances, provided that the adjusted targets are materially neither easier nor more difficult to satisfy than when the award was first granted.

› Directors' remuneration report

Performance share plan (PSP) The performance share plan, which replaced the long term bonus scheme for performance periods commencing on or after 1st April 2005, provides a direct link between the pay of executive directors and the creation of value for shareholders. It rewards directors for the company's out-performance over a three-year performance period in terms of TSR relative to a UK retail index comprising the FTSE 350 General Retailers Index and the FTSE 350 Food & Drug Retailers Index (weighted 50% each). Executive directors can be granted awards worth up to 200% of base salary (250% for the chief executive).

TSR is used as the performance measure for the PSP as it is considered an objective measure of the company's success and 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.

The Committee has chosen TSR percentage out-performance of a blended index in preference to a TSR ranking system because it is more robust (the calibration is less sensitive to the TSR of each individual comparator) and because the indices are automatically weighted by market capitalisation.

TSR is derived using data from the FTSE TRI index, by calculating the percentage growth in the index based on the average of the index for the quarter preceding the commencement of the performance period 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.

Awards are calculated for all executive directors by multiplying the basic annual salary as at 1st June in the first year of the cycle by the relevant factor. The award is then expressed in share units by dividing the salary multiple by the average share price over the five dealing days following the date of the announcement of the preliminary results. At the end of the performance cycle none of the award vests unless the annualised TSR performance exceeds the index TSR by at least 2% p.a. All the shares vest if the annualised TSR performance exceeds the index TSR by at least 10% p.a. (historically equivalent to almost top decile performance), with pro rata vesting in between as indicated in the following table.

Annualised TSR% above blended index average	2	4	6	8	10
% of conditional award	20	40	60	80	100

There are no retests. The eventual value of the award is also affected by share price movement over the performance period. Performance cycles commence on 1st April. The whole of the award gained is paid in shares. The maximum potential rewards are 200% of salary (250% for the chief executive) from the PSP plus any growth in value of shares over the performance period. The plan is expected over time to deliver value of approximately 30% of the maximum. The fair value of the PSP is therefore, for the chief executive, up to 75% of base salary and, for the other executive directors, up to 60% of base salary.

No awards will be made for the 2006/09 performance cycle pending implementation of the proposed merger with Alliance UniChem. It is currently intended (subject to shareholder approval at the AGM of the removal of the general prohibition on the grant of awards more than four months after the start of the performance period) to grant awards after the proposed merger has become effective and suitable performance targets established.

Long term bonus scheme (LTBS) The long term bonus scheme which operated for performance periods commencing before 1st April 2005 provided executive directors with a maximum potential bonus award (MPBA) worth up to 125% of base salary. The LTBS rewards directors for the company's performance in terms of TSR over a three-year performance period relative to a peer group of ten other leading companies which the Committee considered 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 by directly linking the pay of executive directors and the creation of value for shareholders. TSR is derived using the same data sources and in the same way as for the PSP. There is no retest.

For the outstanding performance cycles which commenced in 2003 and 2004, an MPBA was calculated for all executive directors by multiplying the basic annual salary at the beginning of the cycle by a factor of 125%. The MPBA was 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
% of MPBA gained	100	80	64	48	36	24	Nil	Nil	Nil	Nil

The value of the award is affected by share price movement over the performance period. Performance cycles commenced on 1st April. The award is payable in shares.

Share awards under the LTBS are satisfied by the transfer of shares purchased in the market by the Boots Employee Trust at various prices. Currently the trust holds surplus shares and no shares have been purchased for several years.

Prior to 2004/05, directors who joined the company participated pro rata in performance cycles that had more than one complete year to run. The Committee decided in 2005 that directors appointed thereafter would not participate in performance cycles that commenced more than four months before they joined the company.

The Committee decided in the case of awards made to Mr R A Baker on joining to calculate the MPBA for performance cycles that had already commenced using the average share price for the three months 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 for the 2003/06 cycle.

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

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

Executive share option plan (ESOP) Under the executive share option plan, which operated for performance periods commencing before 1st April 2005, executive directors could be granted options to subscribe for ordinary shares in the company. The maximum face value of options that could be granted under the plan to any executive director in any financial year of the company was twice basic salary. Grants did not normally exceed one times annual salary. Options granted to executive directors were granted subject to the satisfaction of a performance condition.

The ESOP aligns reward to executives with return to shareholders if share price growth is achieved and the performance condition is met. The value of the options is directly linked to share price movement. The condition imposed in respect of all options granted is that average annual growth in EPS over the relevant period must at least equal 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 was calculated each year by applying the following formula: $\text{base EPS} \times (100 + \text{increase in RPI} + y)$ where y is 3 in year one, 6 in year two and 9 in year three and so on.

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, performance is retested 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.

The Committee, mindful of the views of investors in respect of the retesting of the performance condition attached to the exercise of executive share options, decided that, in respect of options granted in 2004, only one retest be permitted, as opposed to the three retests previously permitted under the rules, this retest to take place at the end of the fifth year, if the performance condition is not met after year three.

The EPS performance measure in the ESOP was chosen because it provides an absolute measure of company performance which complements the relative TSR measure in the LTBS. RPI is taken from the index published in March each year. EPS was previously calculated in accordance with FRS14 Earnings Per Share. Following the adoption of IFRS, the Committee has determined that the performance measure should be real growth in trading profit per share after finance costs and tax, and has restated previous years to provide a proper comparison. The definition of trading profit is given in note 2 to the accounts. The Committee believes that trading profit per share most closely equates to the previous measure.

The Committee agreed that Mr R A Baker would on joining receive share options of three times his annual salary. Accordingly, a grant of twice annual salary was made under the ESOP, and a grant of once times salary under his individual option plan, an arrangement identical in all respects to the ESOP, made pursuant to paragraph 13.13A of the Listing Rules, and details of those arrangements are set out on page 54.

Pension entitlement All executive directors in office at 31st March 2006 receive pension entitlements from the company's principal UK defined benefit pension scheme, referred to in note 30 and supplementary pension arrangements which are aimed at providing a pension (when taken together with retained benefits from other employment) of two-thirds final base salary at normal retirement age. Non-executive directors are not members of any company pension arrangements. Pension entitlement is calculated only on the salary element of remuneration.

All directors were subject to the former revenue caps and are subject to the new revenue caps, and accordingly have been and will, where appropriate, continue to be members of unfunded unapproved pension arrangements which provide similar benefits in excess of the relevant caps. With effect from 1st June 2006, the company closed its UK defined benefit pension schemes to new employees.

› Directors' remuneration report

Other benefits Executive directors are entitled to a company car, or payment in lieu, sick pay, holidays and other benefits comparable to those provided by other major UK companies. Mr R A Baker, Mr P Bateman and Mr J R Smart participate 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. 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.

Contracts of service

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

Each of the executive directors has a service contract which terminates when the director in question reaches the age of 60. All executive directors' service contracts are terminable by the company on one year's notice and the Committee has determined that one year's 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 year's notice should not be given before the first anniversary of appointment.

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	1 year	See below
P Bateman	25th July 2002	1 year rolling	1 year	Nil
J R Smart	17th May 2006	1 year rolling	1 year	Nil
H Dodd	4th June 2003	Terminated on 18th May 2005	1 year	Nil

With the exception of Mr R A Baker, none of the above contracts contain provisions relating to compensation on termination. The Committee's policy on termination of executive directors' service contracts is that 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 is taken into account in determining any resulting compensation. 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 loss of long term incentives or share options. The company has also agreed with Mr J R Smart that if the proposed merger with Alliance UniChem becomes effective and if, as expected, Mr J R Smart's appointment as chief financial officer is

terminated without notice as a consequence of that, then he will receive a redundancy payment calculated in accordance with the company's redundancy policy, 10 months' basic pay, car allowance and other benefits, a sum equal to the value he might reasonably have been expected to receive under the bonus schemes in which he participates had he been given and accepted 10 months' notice, and his pension will be enhanced for that period.

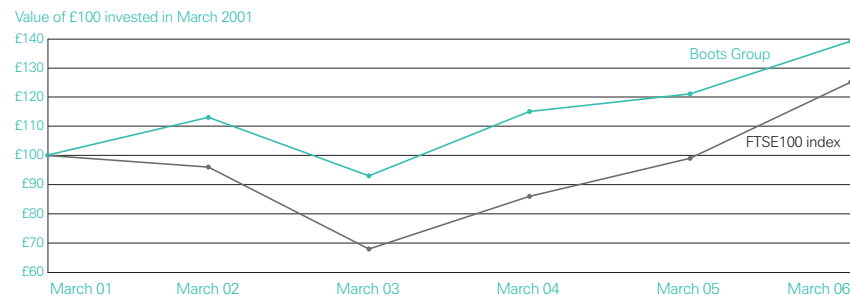
Each director is required to stand for reappointment every three years and may be required to stand for reappointment at an earlier date in order to satisfy the provisions in the company's articles of association that not less than one-third of the board seek reappointment at each AGM. The articles of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

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.

Performance graph

The following graph, required by the Regulations, shows the total shareholder return over the five-year period to 31st March 2006 for the company's shares and the FTSE 100 index. The FTSE 100 is considered to be an appropriate index for comparison as it is well recognised, the company forms part of that index, and investors in the company are likely to regard other FTSE 100 companies as alternative investments.



Dilution information

The following table sets out dilution information 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 over new shares to ISC
April 96 – March 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
April 97 – March 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
April 98 – March 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
April 99 – March 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
April 00 – March 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
April 01 – March 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
April 02 – March 03	– SAYE	0	0	0	0		0	815,084,397	0.000
	– Exec	1,976,343	2,122,528	17,500	117,371		3,964,000	815,084,397	0.486
	– Total	1,976,343	2,122,528	17,500	117,371		3,964,000	815,084,397	0.486
April 03 – March 04	– SAYE	0	0	0	0		0	775,907,597	0.000
	– Exec	3,964,000	1,911,021	62,500	1,111,242		4,701,279	775,907,597	0.606
	– Total	3,964,000	1,911,021	62,500	1,111,242		4,701,279	775,907,597	0.606
April 04 – March 05	– SAYE	0	0	0	0		0	730,451,593	0.000
	– Exec	4,701,279	1,480,455	353,996	1,190,871		4,636,867	730,451,593	0.635
	– Total	4,701,279	1,480,455	353,996	1,190,871		4,636,867	730,451,593	0.635
April 05 – March 06	– SAYE	0	0	0	0		0	485,717,232	0.000
	– Exec	4,636,867	0	0	932,435		3,704,432	485,717,232	0.763
	– Total	4,636,867	0	0	932,435		3,704,432	485,717,232	0.763

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

› Directors' remuneration report

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 2005/06

Analysis of emoluments and short term bonuses are shown below. Details of long term bonuses are shown on pages 52 and 53, outstanding share options and gains on share options are shown on page 54, shareholdings are shown on page 54 and 55, and pension entitlements on page 55.

Analysis of directors' emoluments

An analysis of directors' emoluments relating to salary and fees, short term executive bonus and other benefits (other than share options, LTBS and pensions) for the year to 31st March 2006 is shown below:

£000	Salaries and fees	Short term bonuses	Other benefits	Commutation of accrued unapproved pension rights	Other payments on termination	Total 2006	Total 2005
R A Baker	660	477	44 ²			1,181	1,024 ¹
P Bateman	358	259	24			641	391
G N Dawson	53		1 ⁶			54	54
T C Parker	38		1 ⁶			39	38
H Ploix	43		11 ⁶			54	49
Dr M P Read	43		2 ⁶			45	45
Sir Nigel Rudd	285		12 ⁶			297	318
J R Smart							
(from 3rd Oct 2005)	173	125	6			304	0
H Dodd							
(to 18th May 2005)	53		8 ³	453 ⁵	38 ⁴	552	468
J Bennink							
(to 21 July 2005)	13		1 ⁶			14	45
	1,719	861	110	453	38	3,181	2,432

¹Mr R A Baker's salary for 2005 includes £200,000 and £151,000, being compensation for the loss of his part-vested Asda share options and relocation expenses respectively.

²Mr R A Baker's other benefits include security costs of £12,000 and the related tax benefit in kind.

³Mr H Dodd's other benefits include £3,000 (2005, £35,000) relocation expenses.

⁴Mr H Dodd's other payments on termination were accrued holiday pay of £38,462.

⁵Mr H Dodd surrendered his entitlements under the unfunded unapproved retirement benefit scheme and received a total of £452,952, being the actuarial value of those benefits.

⁶Other benefits for non-executive directors comprise travel, subsistence and accommodation costs, security costs (in some cases) and the related tax benefit in kind.

The aggregate of directors' emoluments before commutation of pension entitlements and other payments on termination was £2,690,000 (2005, £2,432,000).

Base salary

Base salaries are reviewed with effect from 1st June in each year.

The base salaries of executive directors at the year end and at 17th May 2006, the latest practicable date before the printing of this report were as follows:

	At 31st March 2006	At 17th May 2006
R A Baker	£663,000	£663,000
P Bateman	£360,000	£360,000
J R Smart	£350,000	£350,000

Short term executive bonus scheme

Performance against business targets and personal performance during the year was such that a bonus equal to 72% of salary was earned by the executive directors.

Performance share plan (PSP)

Potential entitlements under incomplete PSP performance periods.

The conditional awards (in shares) for the cycle which commenced on 1st April 2005 are shown below:

	Conditional Award 2005	Total
R A Baker	273,605	273,605
P Bateman	118,851	118,851
J R Smart	28,103	28,103

The share price used to calculate the 2005/2008 conditional awards was 605.8p. The outcome for this cycle and the related vested awards will not be determined until June 2008. The share price when the awards were first made was 625p on 1st April 2005. Performance conditions are set out on page 48.

Bonus co-investment plan (BCIP)

No short term bonus was earned by the executive directors in the preceding financial year and accordingly, no co-investment opportunity arose.

Long term bonus scheme (LTBS)

Entitlements under completed LTBS periods At the end of the cycle for the three-year period up to 31st March 2006 the relevant peer group was identical to that shown on page 49.

For the 2003/06 cycle, the company achieved position 10 (2002/05, 7) in the league table. Accordingly, as shown in the table below, no long term bonus units were earned by executive directors and there will be no payment in June 2006 (2005, nil). The share price used to determine the MPBA was 546p (617p in respect of Mr R A Baker) (2002/05, 632p).

2005/06 Number of shares	MPBA 2003/06	MPBA 2002/05	Earned Units 2003/06	Earned Units 2002/05	Share award 2003/06	Share award 2002/05	Cash 2003/06 £000	Cash 2002/05 £000
R A Baker	105,517	61,808	–	–	–	–	–	–
P Bateman	68,681	51,424	–	–	–	–	–	–
J R Smart	30,037	17,300	–	–	–	–	–	–
	204,235	130,532						

Share entitlements may, if granted, be exercised immediately after grant for a period of 12 months. No share awards in respect of prior periods have vested and been exercised in the year, and none were outstanding at 31st March 2006 (2005, nil).

Potential entitlements under incomplete LTBS periods The MPBA (in shares) for the cycle which commenced on 1st April 2004 is shown below:

	MPBA At 31/03/06 re cycle 1/4/04 to 31/3/07	MPBA Awarded in year
R A Baker	113,221	nil
P Bateman	61,533	nil
J R Smart	23,797	nil
	198,551	nil

The share price used to calculate the 2004/07 MPBA was 711p. The outcome for this cycle and the related share awards will not be determined until June 2007. The share price when the awards were first made was 620.5p on 1st April 2004. Performance conditions are set out on page 48 and 49.

TSR performance measure An explanation of the TSR performance measure is shown on page 48.

Share options

The executive share option plan An explanation of the way the ESOP operates is shown on page 49.

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 on page 54. 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.

› Directors' remuneration report

Options have been granted under the ESOP and under Mr R A Baker's individual option plan (see below), as follows:

Number of shares	2001/02	2002/03	2003/04	2003/04	Mr R A Baker's	2004/05	Total at 01/04/05	Granted 05/06	Exercised	Lapsed	Total 31/03/06
	Awarded on 12/09/01 Option price 630p Exercisable between 12/09/04 and 11/09/11	Awarded on 18/06/02 Option price 635p Exercisable between 18/06/05 and 17/06/12	Awarded on 23/06/03 Option price 606p Exercisable between 23/06/06 and 22/06/13	Awarded on 18/09/03 Option price 687p Exercisable between 18/09/06 and 17/09/13	individual option plan Awarded on 18/09/03 Option price 687p Exercisable between 18/09/06 and 17/09/13	Awarded on 14/06/04 Option price 647p Exercisable between 14/06/07 and 13/06/14					
R A Baker	0	0	0	181,950	90,975	99,536	372,461	0	0	0	372,461
P Bateman	26,428	40,944	49,504	0	0	54,095	170,971	0	0	0	170,971
J R Smart	0	0	25,371	0	0	24,517	49,888	0	0	0	49,888

All options are subject to the performance conditions set out on page 49.

During the year, share options held by Mr H Dodd a former director lapsed. No options were exercised.

The market price of the company's shares at 31st March 2006 was 719.5p and the range of market prices during the year was 737.0p to 583.5p.

Directors' interests in share options on 17th May 2006 remain unchanged.

Outcome of performance tests as at 31st March 2006 The performance tests for options granted in 2001 and 2002 and 2003 were not met as at 31st March 2006.

Individual option plan – Mr R A Baker On 18th September 2003 Mr R A Baker received, as part of his joining arrangements, a grant of options of one times his salary of £625,000 amounting to 90,975 shares at a price of 687p (the average of the market price for the three days preceding the grant) on terms identical to the options granted in 2003/04 under the ESOP, exercisable between 18th September 2006 and 17th September 2013 (subject to satisfaction of the performance condition).

The performance condition is identical to that applied to grants under the ESOP, i.e. average annual growth in earnings per share of at least RPI plus 3% over the performance period as described on page 49.

The Boots SAYE share option scheme No options have been granted since July 1999, and no executive directors hold options under the scheme.

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 (2005, nil).

All employee share ownership plan (AESOP)

In the period to 31st March 2001, Boots established an AESOP to enable employees, including executive directors, to become shareholders in the company. Under the free share part of the AESOP, the executive directors were each given the opportunity to be awarded 42 shares (36 in 2004/05), 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.

The share investment plan element of the AESOP, gives employees, including executive directors, the opportunity to purchase shares from their pre-tax income, subject to a maximum of £125 per month. Shares purchased under the partnership plan are included in total shareholdings in the table below.

Directors' shareholdings

The beneficial interests of the directors in office at 31st March 2006 and their families in the share capital of the company at 31st March 2006 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 2006	Ordinary shares 2005 ²
R A Baker	6,226	6,226
P Bateman	6,311	5,866
G N Dawson	2,689	2,689
T C Parker	4,263	4,263
H Ploix	2,740	2,612
Dr M P Read	0	3,698
Sir Nigel Rudd	31,600	31,600
J R Smart	554	554 ¹

¹at date of appointment

²comparatives restated on basis of consolidation of share capital

Included within the ordinary shares held are 426 shares purchased by Mr P Bateman under the AESOP share investment plan.

Each executive director was also deemed, as a potential beneficiary, to have an interest in 589,619 (2005 601,221 restated for consolidation) 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 5,374,119 (2005, 6,040,451 restated for consolidation) ordinary shares of the company held by Boots (QUEST) Trustee Ltd, on behalf of Boots Qualifying Employee Share Trust, established in connection with the company's UK all-employee SAYE Share Option Scheme and in 2,039,980 (2005, 2,120,989 restated for consolidation) ordinary shares of the company held by Boots Share Plan Trustees Ltd, established to hold shares for employees in connection with the company's AESOP. No director holds any loan capital. The personal shareholdings of directors in office at 31st March 2006 remain unchanged on 17th May 2006, other than that, Mr P Bateman now holds a further 18 shares purchased under the share investment plan element of the AESOP, and the number of shares held by Boots Share Plan Trustees Ltd has reduced, thereby reducing each director's deemed interest.

Pensions entitlement

Details of pensions earned by the executive directors in office at 31st March 2006 or at date of retirement are shown below:

£000	Accrued pension at 31st March 2006	Increase in accrued pension during the year to 31st March 2006 gross of inflation per annum	Increase in accrued pension during the year to 31st March 2006 net of inflation per annum	Transfer value of accrued benefits at 31st March 2005	Transfer value of accrued benefits at 31st March 2006	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	49	19	18	360	724	328	238
P Bateman	81	17	14	997	1,462	445	243
J R Smart	30	21	21	114	484	351	325

The total accrued pension entitlement for Mr R A Baker, the highest paid director, at 31st March 2005 was £360,000.

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 2.7%, 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.

By order of the board
Dr Martin Read
Chairman of the board remuneration committee

17th May 2006