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In June 1998, the Stock Exchange published the Principles of Good Governance and Code of Best Practice ('the Combined Code') which embraces the work of the Cadbury, Greenbury and Hampel Committees and became effective in respect of accounting periods ending on or after 31st December 1998.

The board reviewed the company's corporate governance policies and practice in September 1998 in the light of the new requirements introduced by the Combined Code and since then has complied with all the provisions of the code except as follows. The board's policy is that the service contracts of executive directors should be subject to two years' notice of termination by the company although the board remuneration committee is keeping the matter under review. The board's report to shareholders on internal controls relates only to financial controls, pending the outcome of consultation on guidance from the Institute of Chartered Accountants in England and Wales. A change to the Articles of Association so as strictly to comply with the three year rotation requirement for directors will be proposed at the annual general meeting.

Board Composition

Details of the board of directors are shown on page 32 and in the directors' report on page 45. There is a chairman, a deputy chairman and five executive directors. In addition, six independent non-executive directors sit on the board, and bring a wide range of skills and experience to the company.

During the year Lord Blyth became chairman and Sir Michael Angus became deputy chairman. There is a clear division of responsibilities at the head of the company, with Sir Michael Angus chairing the board's remuneration and nominations committees and Mr S G Russell and Mr D A R Thompson being joint group managing directors.

The board considers all of its non-executive directors to be independent, Sir Michael Angus being the senior independent director. An independent director is one who has no relationship with any party which may undermine independence and who is not dependent on the company for his or her primary source of income, was not previously a senior manager of the company and does not participate in the company's incentive bonus schemes or pension schemes.

Conduct of Board Meetings

The board normally has ten regular meetings in the year plus two further meetings to deal specifically with full year and half year results. Strategy meetings are convened as required. A schedule of powers reserved to the board is maintained comprising key events and decisions.

For all board meetings an agenda is established. For regular meetings this generally comprises reports from the chairman, finance director, business managing directors and the personnel director, major items of strategic expenditure to be approved and other significant policy issues. The board is also notified of any dealings by directors and senior managers in the shares of the company. Written reports are provided to the directors in advance of the board meeting. In addition the board considers at least annually the strategic plans of the group and individual businesses and is provided with other information as requested.

Full year and interim results are reviewed by the board audit committee and approved by the board prior to publication. Other price sensitive announcements may be published under the authority of a director.

In the furtherance of their duties, the directors have full access to the services of the company secretary and may take independent professional advice, at cost to the company, subject to a limit of £25,000 and prior notification to the chairman of the audit committee.

In September 1998 the company introduced a policy of training directors on appointment, if this is their first appointment to a public limited company board. From time to time directors are given the opportunity to receive presentations from management about key areas of the company's operations.

Board Committees

There are four principal board committees, all of which operate within written terms of reference. Details of the present composition and the main responsibilities of these committees are as follows:

Board Nominations Committee

Sir Michael Angus (chairman)
Lord Blyth of Rowington
Dr J G S Buchanan
Sir Peter Davis
F M Harrison
J B McGrath
Sir Peter Reynolds
Sir Clive Whitmore

The board nominations committee meets as dictated by circumstances and met twice during the year.

The main responsibility of the board nominations committee is to consider and make recommendations to the board about the appointment of directors, the standing for reappointment of directors and the structure and composition of the board generally.

Board Audit Committee
Dr J G S Buchanan (chairman)
Sir Peter Davis
F M Harrison
J B McGrath
Sir Peter Reynolds
Sir Clive Whitmore

The board audit committee met three times during the year.

The main responsibilities of the board audit committee are:
– to review and advise the board on the interim and annual financial statements.
– to review with the external auditors the nature and scope of their audit and the results of that audit, any control issues raised by them and management's response.
– to make recommendations as to the appointment and remuneration of the external auditors and any question of their resignation or removal.
– to review the company's systems and practices for the identification and management of risk and to receive an annual report on internal audit matters.
– to monitor compliance with the company's policies to prevent illegal and questionable corporate conduct.

The external auditors are appointed annually at the annual general meeting. The board audit committee considers the reappointment of the auditors and reports its findings to the board. The board audit committee periodically considers the performance, cost and independence of the external auditors, including a comparison of audit fees with those of other retail and FTSE100 companies and a review of the level of service provided by the audit team throughout the group.

The audit firm may perform non-audit work for the group but only when its tender is considered superior to that of other consultants.

Board Remuneration Committee
Sir Michael Angus (chairman)
Dr J G S Buchanan
Sir Peter Davis
F M Harrison
J B McGrath
Sir Peter Reynolds
Sir Clive Whitmore

The board remuneration committee met five times during the year.

The committee, having no members who are executive directors or who have personal financial interest in matters to be decided, is responsible to the board for determining the remuneration, terms and conditions and bonus schemes for the executive directors, having regard to performance. A report on the remuneration of directors appears on pages 37 to 41.

Board Social Responsibilities Committee
Sir Peter Davis (chairman)
F M Harrison
M F Ruddell
Sir Clive Whitmore

The board social responsibilities committee met once during the year.

The main responsibility of the board social responsibilities committee is to keep under review the company's policies and practices in the areas of social responsibility including those relating to health, safety, the environment, equal opportunities, race relations and employment of the disabled.

Investor Relations
Communications with shareholders are given a high priority. A rolling programme of meetings between institutional shareholders and executive directors is held throughout the year, in addition to the annual and half year results presentations and the annual general meeting.

All members of the board usually attend the annual general meeting. A business presentation is given at the meeting, followed by a question and answer session. The notice of the meeting together with any related papers is sent to shareholders at least 20 working days before the meeting. Shareholders are given the opportunity to vote on each separate issue. Postal proxy votes will be counted and summary figures will be announced after the vote on show of hands on each item.

Internal Control

The directors are responsible for the group's system of internal control. These controls are established in order to safeguard the group's assets, maintain proper accounting records and ensure that financial information used within the business or published is reliable. The directors recognise that any such system can, however, provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Combined Code has introduced a new requirement, that directors' review the effectiveness of the group's system of internal controls. This requirement extends the directors' review to cover all controls including financial, operational, compliance and risk management.

While the board is ultimately responsible for the group's system of internal controls and for monitoring its effectiveness, formal guidance as to the review of non-financial internal control, as required by the Combined Code, has yet to be published. A working party has been established by the Institute of Chartered Accountants in England and Wales which has recently published guidance in a consultative form. The board will seek to ensure that the group follows such guidance when it is finalised. Pending final guidance, the directors have continued to follow existing guidance and have reviewed the effectiveness of the group's internal financial control system during the financial year ended 31st March 1999 in relation to the criteria described in 'Internal control and financial reporting' issued by the Working Group on Internal Control in December 1994.

The company has an established framework of internal financial controls, the key elements of which are as follows:

– Members of the board have responsibility for monitoring the conduct and operations of individual businesses within the group. This includes the review and approval of business strategies and plans and the setting of key business performance targets. The group has a formal and comprehensive process for the determination of business strategies and this process is co-ordinated and monitored by group headquarters. The executive management responsible for each business are accountable for the conduct and performance of their business within the agreed strategies.
– Business plans provide a framework from which performance commitments have been agreed between group headquarters and each business. These commitments incorporate financial and strategic targets against which business performance is monitored. This monitoring includes the examination of and changes to rolling annual and half year forecasts and monthly measurement of actual achievement against key performance targets and plans. These results are consolidated, appraised and communicated to the board.
– The company has clear requirements for the approval and control of expenditure. Strategic investment decisions involving both capital and revenue expenditure are subject to formal detailed appraisal and review according to approval levels set by the board. Significant expenditure of this nature requires approval by a director or the board. Performance reviews are undertaken by the businesses on completion of significant investments. Operating expenditure is controlled within each business with approval levels for such expenditure being determined by the individual businesses.
– There are clear procedures for monitoring the system of internal financial control. The board audit committee meets three times a year and its responsibilities are outlined on page 35. It receives reports from the internal audit function on the results of work carried out under an annual risk focused internal audit plan and from the external auditors. It also requests the attendance of business management, as required, to report on controls relating to specific business activity.

Internal audit also facilitates an annual process whereby businesses provide certified statements of compliance with internal financial controls, which are supported by summaries of key control activities and an assessment of significant business risks, controls and resulting exposures.

On behalf of the board, the audit committee has reviewed the effectiveness of the system of internal financial control.

Going Concern

Having considered group cash flow forecasts and strategic plans, the directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

This report has been prepared in compliance with Schedule B of the Combined Code annexed to the Stock Exchange listing rules.

Remuneration policies

In determining remuneration policies, the board has followed the provisions set out in Schedule A of the Combined Code annexed to the Stock Exchange listing rules. It is the practice of the board to maintain contact where appropriate with its major shareholders about remuneration issues. Remuneration policies for the executive directors and the senior management team are aligned with the board's governing objective, which is to maximise the value of the company for the benefit of shareholders in terms of total shareholder return represented by share price movement and the value of dividends as if reinvested when paid. Executive bonuses are seen as a means of reinforcing this objective and rewarding executives for their achievement. Responsibilities of the remuneration committee and its membership are set out in the corporate governance statement on page 35.

Remuneration policies are based on the following foundations:

Pay levels Executive directors' salaries and non-executive directors' fees are positioned at competitive levels in the light of independent assessment of market practices. Bonus schemes provide an opportunity for executives to receive additional rewards if, and only if, business performance reaches specified objectives and targets.

Link with business strategy The way that performance is measured for executive directors flows from, and is consistent with, business strategy and therefore a significant element of an executive director's bonus is tied to generating long term returns for shareholders which compare well with those of other leading companies.

The role of equity Share ownership provides an effective way to align the interests of shareholders and executives. Therefore, half of an executive director's long term bonus is payable in shares of the company. The practice of granting executive share options ceased in 1995.

Directors' remuneration

Analyses of emoluments, long term bonuses and gains on share options are shown on pages 38 to 40. Details of shareholdings and outstanding share options are shown on page 40 and pension entitlements on page 41.

Components of emoluments

Salaries and fees Salaries of executive directors reflect the scope of, and changes in, their responsibilities and are reviewed annually by the remuneration committee with reference to external comparisons. The board sets the level of remuneration of the non-executive directors by reference to practice in other leading companies.

Short term executive bonus scheme This scheme rewards executive directors for achieving operating efficiencies and profitable growth in the relevant year by reference to challenging but achievable forecasts derived at the beginning of the year from strategic plans.

During 1998/99, the performance criterion was profit after tax. A bonus of 10% of base salary was payable for performance at 95% of profit after tax target rising to 25% of salary for performance at target level and to a maximum of 35% when profit after tax was 110% of target. Performance against target during the year was such that no bonus was earned by executive directors.

Short term profit related bonus schemes Profit related bonus schemes cover various groups of staff, including executive directors. These schemes are based on performance against either group, or business unit, profit target as appropriate and there is a maximum payment of £6,000 to any individual.

Other benefits Staff, including executive directors, who have completed ten years' service are entitled to a long service payment. This is based upon the level of salary and the number of years' service, up to a maximum of £4,000 per annum. Payments under this scheme are being reduced gradually and will cease in the year 2001. Executive directors receive other benefits, including a company car, sick pay and holidays, which overall provide a reasonably competitive package comparable with that provided by other major companies.

Analysis of individual directors' emoluments £000	**Salaries and fees**	**Short term bonuses**	**Other benefits**	**Total 1999**	Total 1998
Sir Michael Angus (deputy chairman)	**113**	**–**	**–**	**113**	150
Lord Blyth (chairman and highest paid director)	**600**	**6**	**26**	**632**	709
Dr J G S Buchanan (from 18th December 1997)	**27**	**–**	**–**	**27**	8
Sir Peter Davis	**27**	**–**	**–**	**27**	27
F M Harrison	**27**	**–**	**–**	**27**	26
J B McGrath (from 18th December 1997)	**27**	**–**	**–**	**27**	8
Sir Peter Reynolds	**27**	**–**	**–**	**27**	27
M F Ruddell	**255**	**6**	**15**	**276**	337
S G Russell	**350**	**6**	**12**	**368**	417
D A R Thompson	**350**	**6**	**18**	**374**	418
J J H Watson	**210**	**4**	**14**	**228**	263
B E Whalan (to 31st July 1997)	**–**	**–**	**–**	**–**	106
Sir Clive Whitmore	**27**	**–**	**–**	**27**	25
R P Wilson (retired on 23rd July 1998)	**8**	**–**	**–**	**8**	27
	2,048	**28**	**85**	**2,161**	2,548

Long term bonus scheme This scheme provides a direct link between the pay of executive directors and the creation of value for shareholders. Company performance is measured over rolling, four year cycles, in terms of total shareholder return relative to a peer group of ten other leading companies. Transitional performance cycles began on 1st April 1995, a three year performance cycle ended on 31st March 1998 and the first four year cycle ended on 31st March 1999.

During the cycle ended 31st March 1999 the chosen peer group was:

Great Universal Stores
Kingfisher
Marks & Spencer
Reckitt & Colman
J Sainsbury
Sears
Smith & Nephew
SmithKline Beecham
Tesco
W H Smith

The peer group is reviewed before each performance cycle to maintain its relevance.

The amount of bonus depended upon the company's comparative performance against its peer group on the following scale:

Comparative position in peer group league table	1	2	3	4	5	6	7	8	9	10	11
Bonus % of average annual salary	90	90	90	65	55	45	35	25	Nil	Nil	Nil

For the cycles which commenced in April 1997 and April 1998 there will be nil bonus if the position in the above league table is eighth or lower.

Approval for a revision to the long term scheme for the cycle which commenced in April 1999 is being sought at the annual general meeting.

After the end of each performance cycle, one half of any bonus earned is paid in cash. The value of the remaining half is converted into an equivalent number of shares in the company in respect of which the executive director will have conditional rights. The number of shares is calculated by dividing half of the value of the long term bonus by the quotation for a share as derived from the official daily list of the London Stock Exchange on the date for payment of the cash proportion (in 1999, being 21st June). The executive director will normally become entitled to receive those shares only after remaining employed for a further three years. If a director leaves the company during the three year period (except in the case of normal retirement, disability or death), his conditional entitlement to those shares will lapse.

In respect of the four year period to 31st March 1999, the company achieved position four in the league table referred to above. Accordingly the long term bonus amounts earned in respect of that period by executive directors, including amounts relating to periods of service before appointment to the board, were as follows:

£000	**Cash**	**Value of vested shares**	**Total 1999**	Total 1998
Lord Blyth	**170**	**–**	**170**	162
M F Ruddell	**74**	**–**	**74**	71
S G Russell	**87**	**–**	**87**	77
D A R Thompson	**93**	**–**	**93**	87
J J H Watson	**49**	**–**	**49**	30
B E Whalan (to 31st July 1997)	**–**	**–**	**–**	94
	473	**–**	**473**	521

Each executive director will also be awarded conditional rights to receive ordinary shares in the company having a market value on 21st June 1999 equivalent to the cash bonus shown above. The director will normally become entitled to receive those shares in June 2002 if the conditions are satisfied. No shares vested during the year.

Details of the numbers of shares which have been conditionally awarded during the year under the long term bonus scheme for the cycle which was completed at the end of the previous financial year and the cumulative conditional entitlement are shown below:

	Conditional entitlement 1999	Conditional entitlement 1998	Cumulative total
Lord Blyth	**15,956**	22,263	38,219
M F Ruddell	**6,991**	9,525	16,516
S G Russell	**7,652**	9,570	17,222
D A R Thompson	**8,538**	11,475	20,013
J J H Watson	**4,242**	4,876	9,118
	43,379	57,709	101,088

Gain on share options

Details of executive and SAYE share options are shown below. Gains on share options represent the number of shares under options which have been exercised, valued at the difference between the market price at the date of exercise and the exercise price paid.

Details of gains on share options exercised during the year are as follows:

	Exercise price	Number of shares	Market price at date of exercise	Gain 1999 £000	Gain 1998 £000
Lord Blyth	**350p**	**1,971**	**1031p**	**13**	735
M F Ruddell				**–**	375
S G Russell				**–**	260
D A R Thompson				**–**	349
J J H Watson				**–**	256
B E Whalan				**–**	115
Total				**13**	2,090

Directors' shareholdings and share options

The beneficial interests of the directors in office at 31st March 1999 and their families in the share capital of the company at 31st March 1999 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 1999	Ordinary shares 1998
Sir Michael Angus	**3,348**	3,348
Lord Blyth	**292,338**	288,075
Dr J G S Buchanan	**1,000**	–
Sir Peter Davis	**3,256**	3,256
F M Harrison	**3,061**	1,061
J B McGrath	**2,519**	–
Sir Peter Reynolds	**3,609**	3,609
M F Ruddell	**52,382**	52,209
S G Russell	**46,434**	46,417
D A R Thompson	**79,123**	79,081
J J H Watson	**52,393**	55,193
Sir Clive Whitmore	**1,592**	1,592

In addition, Sir Peter Reynolds has a non-beneficial interest in 1,300 (1998 1,300) ordinary shares. Each executive director was also deemed, as a potential beneficiary, to have an interest in the 1,641,829 ordinary shares of the company held by the Boots ESOP Trust Ltd, on behalf of The Boots Employee Trust, established to facilitate the operation of the company's executive bonus schemes and 16,862,912 ordinary shares of the company held by the Boots (QUEST) Trustee Limited, on behalf of The Boots Qualifying Employee Share Trust, established in connection with the company's UK all-employee SAYE Share Option Scheme. No director holds any loan capital. Directors' personal shareholdings on 2nd June 1999 remain unchanged, but the number of shares held by Boots (QUEST) Trustee Limited has reduced, thereby reducing directors' deemed interest.

Share Options

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

Under SAYE scheme	410p	421p	485p	588p	808p	1999 Total	1998 Total
Lord Blyth	**841**	**–**	**–**	**–**	**853**	**1,694**	2,812
M F Ruddell	**841**	**–**	**–**	**663**	**482**	**1,986**	1,504
S G Russell	**–**	**4,097**	**–**	**–**	**–**	**4,097**	4,097
D A R Thompson	**–**	**–**	**1,422**	**1,760**	**–**	**3,182**	3,182
J J H Watson	**–**	**–**	**3,556**	**–**	**–**	**3,556**	3,556

During the year SAYE options in respect of 482 shares were granted to Mr M F Ruddell, Lord Blyth exercised SAYE options in respect of 1,971 shares and SAYE options on a further 853 shares were granted to him.

No executive options are held by directors.

Information on the company's SAYE share option scheme, including dates from when options are exercisable and expiry dates, is shown in note 22. The market price of the company's shares at 31st March 1999 was 895p and the range of market prices during the year was 836p to 1070p.

Directors' interests in share options on 2nd June 1999 remain unchanged.

Pension entitlement

All executive directors in office at 31st March 1999 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. Executive directors are members of the pension scheme and non-executive directors do not participate. There are no money purchase schemes. Pension entitlement is calculated only on the salary element of remuneration. The chairman is entitled to the same level of pension benefits enjoyed by other executive directors despite his shorter service but after adjusting for pensions arising from earlier employment.

Details of pensions earned by the executive directors in office at 31st March 1999 are shown below:

	Age at 31st March 1999	Directors' contributions during the year £000	Increase in accrued pension entitlement during the year £000	Total accrued pension entitlement at 31st March 1999 £000
Lord Blyth (chairman and highest paid director)	58	29	44	330
M F Ruddell	55	12	9	147
S G Russell	54	17	28	191
D A R Thompson	56	17	31	208
J J H Watson	57	10	16	128

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. No account is taken of any retained benefits from previous employments which will act to reduce the benefits shown. The increase in accrued pension during the year excludes any increase for inflation. Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.

The normal retirement age is 60. Early retirement is available subject to Trustee consent and a reduction in the accrued pension. Under the current early retirement terms the pension can be drawn from age 59 without reduction.

On death after retirement spouses' pensions of two-thirds of members' pensions and children's pensions of two-ninths of members' pensions for up to three dependent children are payable (subject to Inland Revenue limits).

Pensions in payment are guaranteed to be increased annually by 5% or the increase in the Index of Retail Prices (RPI) if less. Additional increases may be granted at the discretion of the Trustees and subject to the consent of the company.

Any transfer value calculations would make allowance for discretionary benefits including pension increases and early retirement.

Contracts of service

Sir Michael Angus retired as chairman at the conclusion of the annual general meeting on 23rd July 1998 and became deputy chairman. Lord Blyth succeeded him as chairman.

The chairman has a fixed term service contract with the company which expires at normal retirement age, 60, on 8th May 2000. The chairman is standing for reappointment at the annual general meeting. None of the non-executive directors has a service contract, including Sir Peter Davis who is standing for reappointment as a director at the annual general meeting.

Each executive director has a service contract which is terminable by the company on two years' notice including Mr D A R Thompson, Mr S G Russell and Mr B Clare (appointed on 1st April 1999) who are standing for reappointment at the annual general meeting. All such contracts terminate when the director in question reaches the age of 60. The remuneration committee considers that it is appropriate for executive directors to have a service contract on such terms having regard to their seniority and value to the company and the generally prevailing practice among comparable companies. If any service contract were to be terminated by the company giving less than the contractual period of notice, the requirement for the director to mitigate his loss would be taken into account in determining any resulting compensation.

It is recognised that directors may be invited to become non-executive directors of other companies and that the additional experience and knowledge that this brings will benefit the company. Accordingly, the policy is to allow executive directors to accept up to two such appointments where no conflict of interest arises and to retain the fees received.

Directors' Responsibilities Statement

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the profit or loss for the financial year and of the state of affairs of the company and the group at the end of that period. The directors are of the opinion that suitable accounting policies have been used and applied consistently, applicable accounting standards have been followed, and reasonable and prudent judgements and estimates have been made. The financial statements have been prepared on a going concern basis. The directors have a responsibility to ensure that the company and its subsidiaries have suitable internal controls for maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibilities for taking such steps that are reasonably open to them for safeguarding the assets of the group, and for preventing and detecting fraud and other irregularities.

Report of the Auditors to the members of The Boots Company PLC
We have audited the financial statements on pages 46 to 75.

Respective responsibilities of directors and auditors The directors are responsible for preparing the Annual Report, including as described on page 42, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanation we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on pages 34 to 36 reflects the company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31st March 1999 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Birmingham
2nd June 1999

The directors of The Boots Company PLC present their annual report to shareholders, together with the audited financial statements for the year ended 31st March 1999.

Principal activities
The group's principal activities during the year were:
- retailing of chemists' merchandise and autoparts.
- the provision of opticians' services.
- the development, manufacture and marketing of healthcare and consumer products.
- property investment, development and management.

Further information on the group's continuing activities is provided on page 1.

Business review and future developments
A review of group activities during the year, research and development, and likely future developments are dealt with in the Chairman's Statement, Investment Review and Operational Review on pages 2 to 25.

Group results
The group profit and loss account for 1999 shown on page 46 includes the following details:

	1999 £m	1998 £m
Turnover	**5,044.6**	5,021.9
Profit on ordinary activities before exceptional items and taxation	**560.6**	553.2
Profit on ordinary activities before taxation	**170.3**	431.9

Appropriations
The directors recommend the payment of a final dividend of 16.7p per share which, if approved by shareholders, will be paid on 20th August 1999 to shareholders registered on 18th June 1999. When added to the interim dividend of 7.1p paid on 5th February 1999, this makes a total dividend payment for the year of 23.8p per share (1998 22.3p per share). Payment of these dividends requires £214.5m (1998 £203.4m), leaving a loss of £190.6m (1998 profit £60.6m) retained in the business.

Group structure
On 7th April 1998, Boots The Chemists acquired Connors Holdings Ltd, a privately owned retail pharmacy chain with stores in Northern Ireland, the Republic of Ireland, England and Wales.

On 28th July 1998, The Boots Company PLC formed a joint venture with Mitsubishi Corporation to open Boots Health and Beauty stores in Japan.

On 19th August 1998, the group disposed of Do It All to Focus Retail Group Ltd.

On 9th September 1998, Boots The Chemists acquired a dental body corporate, Wilsons Dentistry Limited (now called Boots Dentalcare Limited) to enable the company to explore opportunities in the corporate dentistry market.

On 23rd September 1998, it was announced that a company was being set up in conjunction with Nicholas Piramal India Limited to focus upon Boots Healthcare International's existing core product categories of analgesics, cough and cold and dermatological skincare.

Share capital
Details of changes in the share capital are shown in note 22 to the financial statements on page 71.

At the annual general meeting on 23rd July 1998, shareholders authorised the company to make market purchases of its own ordinary shares of 25p each. No such purchases were made during the year. During the year The Boots Qualifying Employee Share Trust purchased 16.9m shares with a nominal value of £4.2m.

At the forthcoming annual general meeting on 22nd July 1999, shareholders will be invited to renew the company's authority to make market purchases. The authority will be limited to the purchase of not more than 91.5m ordinary shares, being approximately 10% of the ordinary shares in issue at the date of this report; the maximum price payable to be 105% of the average of the closing mid market quotations for the five business days before the purchase, with the minimum price being the nominal value, exclusive of any expenses payable by the company.

Shareholders
As at 31st May 1999 the register maintained by the company under Section 211 of the Companies Act 1985 contains a notification to the company that the Prudential Corporation group of companies holds 3.3% of the issued ordinary share capital of the company.

Fixed assets
The directors are of the opinion that the market value of the group's properties at 31st March 1999 was not materially different from that stated in the financial statements.

Payment of suppliers
The group is a signatory of the Confederation of British Industry's Prompt Payment Code. It is the policy of the company to agree appropriate terms and conditions for its transactions with suppliers (by means ranging from standard written terms to individually negotiated contracts) and that payment should be made in accordance with those terms and conditions, provided that the supplier has also complied with them.

The number of days' company purchases outstanding at 31st March 1999 was 27 (1998 26).

Staff
The company continues to involve staff in the decision-making process and communicates regularly with them during the year. Their involvement in the company's performance is encouraged with employee bonus and share schemes. The involvement extends to the board of Boots Pensions Ltd, on which there are three employee representatives as well as a retired employee. The company's aim for all members of staff and applicants for employment is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity, regardless of sex, religion or ethnic origin. The company does all that is practicable to meet its responsibility towards the employment and training of disabled people. Where an employee becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative.

Charitable and political donations
During the year the company was a sponsor of the Labour Party Women's Conference held in Nottingham for the sum of £20,000 which provided the opportunity to promote the company's businesses to delegates in its home town.

Donations for charitable and educational purposes in the UK for the year were £2.9m (1998 £2.7m). Further information on community relations is shown on page 26.

Directors
Details of directors in office on 31st March 1999 are shown on page 32. Mr R P Wilson was a director until his retirement from the board on 23rd July 1998.

Lord Blyth, Sir Peter Davis, Mr S G Russell and Mr D A R Thompson retire by rotation at the annual general meeting in accordance with Article 87 and offer themselves for reappointment.

Mr B Clare who was appointed as a director on 1st April 1999 retires at the annual general meeting in accordance with Article 86 and offers himself for reappointment.

Information on service contracts and details of the interests of the directors and their families in the share capital of the company at 31st March 1999 are shown in the Board Remuneration Report on pages 37 and 41.

Auditors
A resolution to reappoint KPMG Audit Plc as auditors and to authorise the directors to fix their remuneration will be proposed at the annual general meeting.

By order of the board
2nd June 1999
I A Hawtin
Secretary

Group Profit and Loss Account

For the year ended 31st March 1999

	Notes	Before exceptional items 1999 £m	Exceptional items (note 3) 1999 £m	Total 1999 £m	Before exceptional items 1998 £m	Exceptional items (note 3) 1998 £m	Total 1998 £m
Turnover							
Continuing operations – excluding acquisitions		**4,894.7**	**–**	**4,894.7**	4,638.4	–	4,638.4
– acquisitions		**17.7**	**–**	**17.7**	–	–	–
Turnover from continuing operations		**4,912.4**	**–**	**4,912.4**	4,638.4	–	4,638.4
Discontinued operations		**132.2**	**–**	**132.2**	383.5	–	383.5
Total turnover	1	**5,044.6**	**–**	**5,044.6**	5,021.9	–	5,021.9
Operating profit							
Continuing operations – excluding acquisitions		**563.1**	**(69.4)**	**493.7**	539.7	5.5	545.2
– acquisitions		**(1.7)**	**(6.9)**	**(8.6)**	–	–	–
Operating profit from continuing operations		**561.4**	**(76.3)**	**485.1**	539.7	5.5	545.2
Discontinued operations		**2.7**	**–**	**2.7**	(1.7)	–	(1.7)
Group operating profit		**564.1**	**(76.3)**	**487.8**	538.0	5.5	543.5
Share of operating loss of joint venture		**(1.7)**	**–**	**(1.7)**	–	–	–
Total operating profit including joint venture	1,2	**562.4**	**(76.3)**	**486.1**	538.0	5.5	543.5
Profit on disposal of fixed assets	3						
Continuing operations		**–**	**4.6**	**4.6**	–	43.1	43.1
Discontinued operations		**–**	**0.3**	**0.3**	–	4.0	4.0
Loss on disposal of businesses	4						
Discontinued operations		**–**	**(318.9)**	**(318.9)**	–	(173.9)	(173.9)
Profit on ordinary activities before interest		**562.4**	**(390.3)**	**172.1**	538.0	(121.3)	416.7
Net interest	5	**(1.8)**	**–**	**(1.8)**	15.2	–	15.2
Profit on ordinary activities before taxation		**560.6**	**(390.3)**	**170.3**	553.2	(121.3)	431.9
Tax on profit on ordinary activities	6	**(169.9)**	**23.6**	**(146.3)**	(167.2)	(2.0)	(169.2)
Profit on ordinary activities after taxation		**390.7**	**(366.7)**	**24.0**	386.0	(123.3)	262.7
Equity minority interests		**(0.1)**	**–**	**(0.1)**	1.3	–	1.3
Profit for the financial year attributable to shareholders	7	**390.6**	**(366.7)**	**23.9**	387.3	(123.3)	264.0
Dividends	8			**(214.5)**			(203.4)
(Loss)/profit retained				**(190.6)**			60.6
Basic earnings per share	9	**42.9p**	**(40.3)p**	**2.6p**	42.6p	(13.6)p	29.0p
Fully diluted earnings per share	9	**42.5p**	**(39.9)p**	**2.6p**	42.2p	(13.4)p	28.8p

Other Primary Statements of the Group

For the year ended 31st March 1999

Statement of Total Recognised Gains and Losses	1999 £m	1998 £m
Profit for the financial year attributable to shareholders	**23.9**	264.0
Deficit on revaluation of properties	**(1.4)**	(1.4)
Impairment losses on revalued assets	**(1.7)**	–
Currency translation differences on foreign currency net investments	**3.0**	(13.7)
Other gains and losses	**0.4**	–
Total recognised gains and losses for the year	**24.2**	248.9
Prior period adjustment (see note 20)	**12.0**	
Total gains and losses recognised since last annual report	**36.2**	

Currency translation differences are shown net of tax of £(0.1)m (1998 £1.3m).

Note on Historical Cost Profits and Losses	1999 £m	1998 £m
Reported profit on ordinary activities before taxation	**170.3**	431.9
Realisation of property revaluation surpluses	**7.2**	64.4
Difference between historical cost depreciation charge and actual charge for the year calculated on revalued amounts	**1.3**	0.2
Historical cost profit on ordinary activities before taxation	**178.8**	496.5
Historical cost (loss)/profit retained	**(182.1)**	125.2

Reconciliation of Movements in Shareholders' Funds	1999 £m	1998* £m
Total recognised gains and losses for the year	**24.2**	248.9
Dividends	**(214.5)**	(203.4)
New share capital issued (net of expenses)	**8.8**	11.8
Goodwill relating to acquisitions prior to 1st April 1998	**(1.4)**	(189.3)
Goodwill released on disposal of businesses	**312.2**	121.5
Scrip dividends	–	27.8
Net increase in shareholders' funds	**129.3**	17.3
Opening shareholders' funds	**1,650.9**	1,633.6
Closing shareholders' funds	**1,780.2**	1,650.9

*Restated as explained in note 20.

Balance Sheets

31st March 1999

		Notes	Group 1999 £m	Group 1998* £m	Parent 1999 £m	Parent 1998* £m
Fixed assets						
Intangible assets		10	**64.4**	29.3	**2.8**	3.0
Tangible assets		11	**1,788.6**	1,664.9	**620.9**	609.2
Investment in joint venture	– share of gross assets		**7.1**	–		
	– share of gross liabilities		**(0.9)**	–		
		12	**6.2**	–	**6.5**	–
Other investments		12	**106.2**	2.6	**1,717.4**	1,619.4
			1,965.4	1,696.8	**2,347.6**	2,231.6
Current assets						
Stocks		13	**722.0**	709.3	**200.1**	194.8
Debtors falling due within one year		14	**388.1**	386.9	**363.7**	2,287.1
Debtors falling due after more than one year		14	**14.1**	58.7	**273.2**	415.4
Current asset investments and deposits		15	**105.8**	228.7	**77.3**	205.5
Cash at bank and in hand			**32.2**	35.6	**10.6**	0.1
			1,262.2	1,419.2	**924.9**	3,102.9
Creditors: Amounts falling due within one year		16	**(1,191.0)**	(1,155.0)	**(985.9)**	(1,916.3)
Net current assets			**71.2**	264.2	**(61.0)**	1,186.6
Total assets less current liabilities			**2,036.6**	1,961.0	**2,286.6**	3,418.2
Creditors: Amounts falling due after more than one year		17	**(230.7)**	(258.6)	**(513.6)**	(1,508.9)
Provisions for liabilities and charges		20	**(25.3)**	(51.5)	**(4.8)**	(8.6)
Net assets			**1,780.6**	1,650.9	**1,768.2**	1,900.7
Capital and reserves						
Called up share capital		21, 22	**228.8**	228.2	**228.8**	228.2
Share premium account		21	**252.0**	243.8	**252.0**	243.8
Revaluation reserve		21	**276.2**	286.1	**–**	–
Capital redemption reserve		21	**36.8**	36.8	**36.8**	36.8
Profit and loss account		21	**986.4**	856.0	**1,250.6**	1,391.9
Equity shareholders' funds			**1,780.2**	1,650.9	**1,768.2**	1,900.7
Equity minority interests			**0.4**	–	**–**	–
			1,780.6	1,650.9	**1,768.2**	1,900.7

*Restated as explained in note 20.

The financial statements were approved by the board of directors on 2nd June 1999 and are signed on its behalf by:

Lord Blyth of Rowington
Chairman

David Thompson
Joint Group Managing Director and Finance Director

Group Cash Flow Information

For the year ended 31st March 1999

Reconciliation of operating profit to operating cash flows	Notes	1999 £m	1998 £m
Group operating profit before exceptional items		**564.1**	538.0
Depreciation and amortisation of fixed assets		**140.1**	122.1
Loss on disposal of fixed assets, excluding properties		**6.8**	4.1
Increase in stocks, including property development stock		**(78.3)**	(53.1)
Increase in debtors		**(55.3)**	(30.1)
Increase in creditors		**39.6**	54.0
Other non-cash movements		**(0.6)**	(1.5)
Net cash inflow before expenditure relating to exceptional items		**616.4**	633.5
Exceptional operating cash flows	23	**(14.5)**	(27.9)
Cash inflow from operating activities		**601.9**	605.6

The cash inflow from operating activities includes £0.4m (1998 outflow £12.1m) relating to discontinued operations.

Group cash flow statement	Notes	1999 £m	1998 £m
Cash inflow from operating activities		**601.9**	605.6
Returns on investment and servicing of finance	23	**(24.9)**	(10.5)
Taxation		**(112.4)**	(232.8)
Capital expenditure and financial investment	23	**(458.5)**	9.1
Acquisitions and disposals	4	**55.2**	(190.4)
Equity dividends paid		**(207.1)**	(563.3)
Cash outflow before use of liquid resources and financing		**(145.8)**	(382.3)
Management of liquid resources	23	**122.8**	371.9
Financing	23	**28.2**	(8.8)
Increase/(decrease) in cash		**5.2**	(19.2)

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

Reconciliation of net cash flow to movement in net (debt)/funds	Notes	1999 £m	1998 £m
Increase/(decrease) in cash		**5.2**	(19.2)
Cash inflow from decrease in liquid resources	24	**(122.8)**	(371.9)
Cash (inflow)/outflow from change in borrowings and lease financing	24	**(19.4)**	20.5
Movement in net (debt)/funds resulting from cash flows		**(137.0)**	(370.6)
Investments and borrowings of businesses disposed/acquired		**–**	0.4
Loan notes issued as settlement for acquisition		**(16.8)**	(11.3)
Finance lease additions		**(6.7)**	(10.4)
Increase in value of investment in 10.125% bond 2017		**16.5**	15.1
Currency and other non-cash adjustments		**(1.4)**	(2.1)
Movement in net (debt)/funds during the year		**(145.4)**	(378.9)
Opening net (debt)/funds		**(149.4)**	229.5
Closing net debt	24	**(294.8)**	(149.4)

Net (debt)/funds comprises cash, liquid resources, finance leases and all other borrowings.

The following accounting policies have been used in dealing with items which are considered material in relation to the group and parent company financial statements.

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under alternative accounting rules set out in Schedule 4 to the Companies Act 1985, being prepared under the historical cost convention adjusted by the revaluations of certain properties. However, compliance with SSAP19 'Accounting for investment properties' requires a departure from the requirements of the Companies Act 1985 relating to the depreciation of investment properties as described in note 11 to the financial statements on page 61.

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

During the year a number of new Financial Reporting Standards (FRSs) have been issued by the Accounting Standards Board and become effective for this year's Report and Accounts. The effects of FRS9 'Associates and Joint Ventures', FRS10 'Goodwill and Intangible Assets', FRS11 'Impairment of Fixed Assets and Goodwill', FRS12 'Provisions, Contingent Liabilities and Contingent Assets', FRS13 'Derivatives and Other Financial Instruments: Disclosures' and FRS14 'Earnings Per Share', have been adopted in this year's accounts and the comparatives restated where necessary as described below.

The implementation of FRS12 'Provisions, Contingent Liabilities and Contingent Assets' has required a release of provisions previously created that relate to the disposal of businesses which would not have been recognised under FRS12 and prior period adjustments have, therefore, been made. The effect on the balance sheet at 31st March 1998 is to reduce provisions for liabilities and charges and increase reserves for the group by £12.0m (parent £3.9m). There is no impact on the profit and loss account for either the current year or the year ended 31st March 1998. Details are shown in note 20 to the financial statements on page 69.

Consolidation

The group financial statements combine the results of the parent undertaking and all its subsidiaries, and associated undertakings and joint ventures, to the extent of group ownership and after eliminating intra-group transactions.

The results of businesses acquired or disposed of are consolidated from or to the effective dates of acquisition or disposal.

Associated undertakings and joint ventures are those undertakings, not recognised as subsidiaries, in which the group has a participating interest, over whose policies the group is able to exercise a significant degree of influence and/or, in the case of joint ventures, are jointly controlled. The group's share of the results of associated undertakings and joint ventures, which are accounted for under the equity method and gross equity method respectively, is included in the profit and loss account and its share of their net assets excluding goodwill is included in investments in the group balance sheet.

In the parent company balance sheet, investments in subsidiary, associated undertakings and joint ventures are stated at cost less provision for permanent diminution in value.

Foreign currencies

The results and cash flows of overseas subsidiaries are translated into sterling on an average exchange rate basis, weighted by the actual results of each month. Assets and liabilities including currency swaps are translated into sterling at the rates of exchange ruling at the balance sheet date.

Exchange differences arising from the translation of the results and net assets of overseas subsidiaries, less offsetting exchange differences on foreign currency borrowings and currency swaps hedging those assets (net of any related tax effects), are dealt with through reserves.

All other exchange differences are dealt with in the profit and loss account.

The cost of the parent company investment in shares in overseas subsidiaries is stated at the rate of exchange in force at the date each investment was made.

Goodwill and intangible assets

Goodwill on acquisitions comprises the excess of the cost of investment in subsidiary undertakings, associated undertakings and joint ventures over the fair value of net assets acquired. Fair values are attributed to the identifiable assets and liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are also made to bring the accounting policies of acquired businesses into alignment with those of the group. The costs of integrating and reorganising acquired businesses are charged to the post-acquisition profit and loss account.

Goodwill arising on acquisitions prior to 1st April 1998 has been set off against reserves. On disposal of such businesses, any goodwill previously set off against reserves is charged in the calculation of the profit or loss on disposal. For subsequent acquisitions goodwill is recognised within fixed assets in the year in which it arises and amortised on a straight line basis over its useful economic life, generally not exceeding 20 years.

The cost of intangible assets acquired, which are capitalised only if separately identifiable, is amortised over estimated useful lives generally up to a maximum of 20 years. Similar assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. The carrying value of intangible assets (including in particular those being amortised over periods greater than 20 years) is reviewed annually and any impairment in value charged to the profit and loss account.

Tangible fixed assets and depreciation

No depreciation is provided on freehold land, investment properties, shop freeholds and shop long leaseholds with more than 50 years to run, nor on assets in the course of construction. In the opinion of the directors, shop properties are maintained to such a standard by a programme of repair and refurbishment that the estimated residual values of these properties, based on the prices prevailing at the time of acquisition or subsequent revaluation, are sufficiently high to make any depreciation charge unnecessary.

Any impairment in the value of such fixed assets is charged to the profit and loss account as it arises.

The cost less residual value of other tangible fixed assets is written off by equal instalments over their expected useful lives as follows:
Freehold buildings, other than shops – 40 to 66 years
Computer equipment – 3 to 8 years
Motor cars – 4 or 5 years
Other motor vehicles – 3 to 10 years
Fixtures and plant – 5 to 20 years
Shop leasehold properties – Remaining period of lease when less than 50 years
Other leasehold properties – Remaining period of lease

Investment properties are revalued annually and included in the balance sheet at their existing use value.

To qualify as an investment property, over 50% of rental income from the property must derive from non-group tenants.

Profits and losses arising from the disposal of properties which have previously been revalued are calculated by reference to their carrying value.

Derivative financial instruments

The group holds derivative financial instruments to manage the interest risk of long term liabilities (including leases). Amounts payable or receivable in respect of interest rate derivatives are recognised on an accruals basis over the life of the instrument.

Short term debtors and creditors that meet the definitions of a financial asset or liability respectively have been excluded from the FRS13 numerical disclosures as permitted by the standard, as detailed in note 19 to the financial statements on page 67.

Turnover

Turnover comprises sales to external customers (excluding VAT and other sales taxes) and rental income.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels.

Research and development
Expenditure on research and development, other than on buildings and plant, is charged against profit in the year in which it is incurred.

Pension funding
The company and its UK subsidiaries operate pension schemes under which contributions by employees and by the companies are held in trust funds separated from the companies' finances. Actuarial valuations of the schemes are conducted at three year intervals and include a review of contributions.

The cost of providing pensions is spread over the employees' working lives with the companies. The cost charged to the profit and loss account in any year may not always equal the employer contributions to the pension schemes.

Leases
The rental costs of properties and other assets held under operating leases are charged to the profit and loss account on a straight line basis. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the profit and loss account on a straight line basis over the lease term or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

The cost of assets held under finance leases is included under tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations.

Deferred taxation
A deferred taxation provision is made only where the effects of timing differences between profits as stated in the financial statements and as computed for tax purposes are likely to reverse in the foreseeable future. Advance corporation tax is carried forward to the extent it is expected to be recovered.

No provision is made for any potential liability to corporation tax on capital gains arising on disposals of assets where the liability is expected to be deferred indefinitely.

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiaries and associates as there is no present intention to remit the major part of these profits.

Exceptional items
Exceptional items are those which fall within the ordinary activities of the group and which need to be disclosed by virtue of their size or incidence. Such items are included within operating profit unless they represent profits or losses on the sale or termination of an operation, costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the group's operations, profits or losses on the disposal of fixed assets (other than marginal adjustments to depreciation previously charged), or provisions in respect of such items. In these cases, disclosure is made on the face of the profit and loss account after operating profit.

1 Segmental information

(i) Turnover by business segment

	Notes	**Total 1999 £m**	**Inter-segmental 1999 £m**	**External 1999 £m**	Total 1998 £m	Inter-segmental 1998 £m	External 1998 £m
Continuing operations							
Boots The Chemists	a	**3,823.1**	**–**	**3,823.1**	3,573.7	–	3,573.7
Boots Retail International	b	**15.8**	**–**	**15.8**	5.2	–	5.2
Boots Opticians		**194.3**	**–**	**194.3**	182.9	–	182.9
Halfords		**457.3**	**0.6**	**456.7**	435.0	0.7	434.3
Boots Properties	c	**96.3**	**79.3**	**17.0**	149.6	82.9	66.7
Boots Healthcare International		**308.4**	**18.6**	**289.8**	273.7	16.5	257.2
Boots Contract Manufacturing		**309.8**	**194.1**	**115.7**	314.9	196.5	118.4
		5,205.0	**292.6**	**4,912.4**	4,935.0	296.6	4,638.4
Discontinued operations (see note 4(ii))							
Do It All		**132.2**	**–**	**132.2**	337.2	–	337.2
A G Stanley		**–**	**–**	**–**	46.3	–	46.3
		5,337.2	**292.6**	**5,044.6**	5,318.5	296.6	5,021.9

a Acquisitions contributed £17.1m to the turnover of Boots The Chemists in the current year (see note 4).
b There were no sales by the joint venture in either year.
c Boots Properties' turnover includes development income of £4.8m (1998 £49.4m).

(ii) Turnover by geographical segment

	Origin 1999 £m	Origin 1998 £m	**Destination 1999 £m**	Destination 1998 £m
Continuing operations				
UK	**4,644.5**	4,420.7	**4,551.7**	4,340.1
Rest of Europe	**239.6**	173.1	**283.9**	214.2
Rest of World	**59.7**	71.8	**76.8**	84.1
Inter-segmental	**(31.4)**	(27.2)	**–**	–
	4,912.4	4,638.4	**4,912.4**	4,638.4
Discontinued operations				
UK	**132.2**	383.5	**132.2**	383.5
	5,044.6	5,021.9	**5,044.6**	5,021.9

1 Segmental information continued

(iii) Total operating profit by business segment

	Notes	Before exceptional items 1999 £m	Exceptional operating items (note 3) 1999 £m	Total 1999 £m	Before exceptional items 1998 £m	Exceptional operating items (note 3) 1998 £m	Total 1998 £m
Continuing operations							
Boots The Chemists		**461.0**	**(8.9)**	**452.1**	443.8	–	443.8
Boots Retail International – group		**(19.2)**	**–**	**(19.2)**	(21.2)	–	(21.2)
– share of joint venture		**(1.7)**	**–**	**(1.7)**	–	–	–
Boots Opticians		**14.5**	**–**	**14.5**	17.0	14.3	31.3
Halfords		**40.3**	**–**	**40.3**	34.2	–	34.2
Boots Properties	a	**65.2**	**–**	**65.2**	76.0	–	76.0
Boots Healthcare International		**15.3**	**(5.2)**	**10.1**	1.2	(8.8)	(7.6)
Boots Contract Manufacturing		**24.3**	**(2.5)**	**21.8**	24.7	–	24.7
Group costs		**(40.0)**	**(59.7)**	**(99.7)**	(36.0)	–	(36.0)
		559.7	**(76.3)**	**483.4**	539.7	5.5	545.2
Discontinued operations							
Do It All		**2.7**	**–**	**2.7**	2.5	–	2.5
A G Stanley		**–**	**–**	**–**	(4.2)	–	(4.2)
Total operating profit including joint venture		**562.4**	**(76.3)**	**486.1**	538.0	5.5	543.5

a Boots Properties' results include development losses of £0.2m (1998 profits £8.8m).
b Non-operating exceptionals are shown in note 3.

(iv) Total operating profit by geographic origin

	Before exceptional items 1999 £m	Exceptional operating items (note 3) 1999 £m	Total 1999 £m	Before exceptional items 1998 £m	Exceptional operating items (note 3) 1998 £m	Total 1998 £m
Continuing operations						
UK	**583.9**	**(14.7)**	**569.2**	569.9	6.2	576.1
Rest of Europe	**10.8**	**(1.4)**	**9.4**	2.0	(0.7)	1.3
Rest of World	**5.0**	**(0.5)**	**4.5**	3.8	–	3.8
Group costs	**(40.0)**	**(59.7)**	**(99.7)**	(36.0)	–	(36.0)
	559.7	**(76.3)**	**483.4**	539.7	5.5	545.2
Discontinued operations						
UK	**2.7**	**–**	**2.7**	(1.7)	–	(1.7)
Total operating profit including joint venture	**562.4**	**(76.3)**	**486.1**	538.0	5.5	543.5

(v) Net assets by business segment	1999 £m	1998* £m
Continuing operations		
Boots The Chemists	**835.2**	657.2
Boots Retail International	**32.8**	8.8
Boots Opticians	**50.0**	42.6
Halfords	**114.1**	106.2
Boots Properties	**884.1**	866.1
Boots Healthcare International	**103.1**	80.0
Boots Contract Manufacturing	**169.0**	165.5
	2,188.3	1,926.4
Discontinued operation		
Do It All	**–**	90.2
Net operating assets	**2,188.3**	2,016.6
Unallocated net liabilities	**(407.7)**	(365.7)
	1,780.6	1,650.9

Net operating assets include intangible and tangible fixed assets, fixed asset investments, stocks, third party debtors and creditors and inter-segmental trading balances. Unallocated net liabilities include all current taxation balances, dividend creditors, net debt/funds and provisions for liabilities and charges.

(vi) Net operating assets by geographical segment	1999 £m	1998* £m
Continuing operations		
UK	**2,081.0**	1,858.1
Rest of Europe	**73.7**	44.9
Rest of World	**33.6**	23.4
	2,188.3	1,926.4
Discontinued operation		
UK	**–**	90.2
	2,188.3	2,016.6

*Restated as explained in note 20.

2 Total operating profit

	Continuing operations 1999 £m	Discontinued operation 1999 £m	Total 1999 £m	Continuing operations 1998 £m	Discontinued operations 1998 £m	Total 1998 £m
Turnover	**4,912.4**	**132.2**	**5,044.6**	4,638.4	383.5	5,021.9
Cost of sales	**(2,632.9)**	**(62.2)**	**(2,695.1)**	(2,505.7)	(172.0)	(2,677.7)
Gross profit	**2,279.5**	**70.0**	**2,349.5**	2,132.7	211.5	2,344.2
Selling, distribution and store costs	**(1,415.3)**	**(57.4)**	**(1,472.7)**	(1,310.0)	(189.4)	(1,499.4)
Research and development costs	**(24.8)**	**–**	**(24.8)**	(25.6)	–	(25.6)
Administrative expenses	**(354.3)**	**(9.9)**	**(364.2)**	(251.9)	(23.8)	(275.7)
Share of operating loss of joint venture	**(1.7)**	**–**	**(1.7)**	–	–	–
Total operating profit/(loss)	**483.4**	**2.7**	**486.1**	545.2	(1.7)	543.5
Exceptional (charges)/credits included in operating profit:						
Cost of sales	**(1.8)**	**–**	**(1.8)**	14.3	–	14.3
Selling, distribution and store costs	**(7.4)**	**–**	**(7.4)**	(0.7)	–	(0.7)
Administrative expenses	**(67.1)**	**–**	**(67.1)**	(8.1)	–	(8.1)
	(76.3)	**–**	**(76.3)**	5.5	–	5.5
Gross profit before exceptional items	**2,281.3**	**70.0**	**2,351.3**	2,118.4	211.5	2,329.9
Total operating profit/(loss) before exceptional items	**559.7**	**2.7**	**562.4**	539.7	(1.7)	538.0

The results of continuing operations in 1999 include the following amounts relating to acquisitions: turnover £17.7m, cost of sales £12.9m, selling, distribution and store costs £6.3m, research and development costs £Nil, administrative expenses £2.8m.

Total operating profit is after charging:	1999 £m	1998 £m
Operating lease rentals		
– Property rents	**182.1**	215.9
– Computer and plant hire	**4.0**	5.4
Depreciation and amortisation of fixed assets	**139.2**	122.1
Amortisation of goodwill	**0.9**	–
Auditors' remuneration, including £0.3m (1998 £0.3m) for the parent company	**0.8**	0.8

The group auditors and their associates also received £1.9m (1998 £2.3m) in respect of non-audit services in the UK and £0.3m (1998 £0.2m) from overseas subsidiaries.

3 Exceptional items

	Notes	Continuing operations 1999 £m	Discontinued operation 1999 £m	Total 1999 £m	Continuing operations 1998 £m	Discontinued operations 1998 £m	Total 1998 £m
Exceptional operating items:							
Boots The Chemists	a	**(8.9)**	**–**	**(8.9)**	–	–	–
Boots Opticians	b	**–**	**–**	**–**	14.3	–	14.3
Boots Healthcare International	c	**(5.2)**	**–**	**(5.2)**	(8.8)	–	(8.8)
Boots Contract Manufacturing	d	**(2.5)**	**–**	**(2.5)**	–	–	–
Group costs	e	**(59.7)**	**–**	**(59.7)**	–	–	–
		(76.3)	**–**	**(76.3)**	5.5	–	5.5
Profit on disposal of fixed assets:							
Profit on disposal of properties		**4.6**	**0.3**	**4.9**	41.0	4.0	45.0
Profit on disposal of intangible assets	f	**–**	**–**	**–**	2.1	–	2.1
		4.6	**0.3**	**4.9**	43.1	4.0	47.1
Loss on disposal of businesses (see note 4)		**–**	**(318.9)**	**(318.9)**	–	(173.9)	(173.9)
		(71.7)	**(318.6)**	**(390.3)**	48.6	(169.9)	(121.3)
Attributable tax credit/(charge) (see note 6)		**23.6**	**–**	**23.6**	(2.0)	–	(2.0)
		(48.1)	**(318.6)**	**(366.7)**	46.6	(169.9)	(123.3)

a Boots The Chemists has incurred costs of integrating the Hayes Conyngham & Robinson and Connors businesses into the Boots The Chemists chain.
b VAT recoverable by Boots Opticians arises from the High Court decision that VAT is not payable on the dispensing of spectacles. The amounts shown above represent VAT recovered last year from HM Customs & Excise.
c Boots Healthcare International has incurred costs associated with the restructuring of business support services. Provision was also made last year for integrating the Hermal business into its skincare operations.
d Boots Contract Manufacturing has initiated a competitive cost programme resulting in redundancy costs.
e During the year the group established a QUEST (see note 12). The amount shown above represents the cost of the company's contribution to the QUEST being the difference between the market value of the shares bought by the QUEST and the option price payable by employees to acquire those shares when SAYE options over them mature.
f Boots Healthcare International sold its Femfresh brand during last year for £2.1m.

4 Purchase and disposal of businesses
(i) Acquisitions

	Total 1999 £m	Total 1998 £m
Tangible fixed assets	**4.6**	17.6
Intangible fixed assets	**–**	0.4
Stocks	**7.7**	9.6
Debtors	**1.6**	7.2
(Overdrafts)/cash balances	**(4.1)**	2.9
Other creditors and provisions	**(8.5)**	(20.6)
Minority interests	**–**	(1.1)
Fair value of net assets acquired	**1.3**	16.0
Goodwill – current year	**22.8**	–
– relating to acquisitions prior to 1st April 1998	**1.4**	189.3
Consideration including acquisition costs	**25.5**	205.3
Deferred consideration included above	**–**	0.9
Variable rate loan notes consideration included above	**16.8**	11.3

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

On 7th April 1998, Boots The Chemists acquired Connors Holdings Ltd (Connors), a privately owned retail pharmacy chain for £17m with stores in Northern Ireland, the Republic of Ireland, England and Wales. Upon acquisition of Connors a fair value adjustment of £0.9m was made to reduce the tangible fixed assets.

Boots The Chemists acquired a number of other pharmacy businesses during the year for an aggregate consideration of £5.4m. There were no significant fair value adjustments in respect of any of these acquisitions.

Goodwill relating to acquisitions in the year is being amortised over 20 years.

The principal purchase during the year to 31st March 1998 was Boots Healthcare International's acquisition of Hermal Kurt Herrman oHG from Merck KGaA for DM501m (£176.2m).

4 Purchase and disposal of businesses continued

(ii) Disposals

	1999 £m	1998 £m
Tangible fixed assets	**(55.7)**	(24.4)
Stocks	**(68.9)**	(24.4)
Debtors	**(12.4)**	(2.5)
Overdrafts/(cash balances)	**0.1**	(7.1)
Other creditors and provisions	**70.0**	18.5
Net assets disposed of	**(66.9)**	(39.9)
Related goodwill	**(312.2)**	(121.5)
Disposal and other termination costs	**(2.0)**	(12.5)
Consideration	**62.2**	–
Loss on disposal	**(318.9)**	(173.9)
Consideration repayable included above	**(2.3)**	–

Do It All

The disposal of Do It All to Focus Retail Group Ltd (Focus) was completed on 19th August 1998 for a consideration of £62.2m which includes a repayment by Boots of £2.3m to Focus in respect of the final settlement on completion of the net asset value statement in May 1999. Boots will continue to act as guarantor for leases on 29 stores associated with this transaction with a total annual rent of £6m.

Do It All is a discontinued operation and its results for both the current year and prior years have been classified accordingly.

A G Stanley

The disposal in the year to 31st March 1998 was the sale of A G Stanley to Alchemy Partners for a cash consideration of £1. This disposal was classified as a discontinued operation.

(iii) Net cash inflow/(outflow) for acquisitions and disposals	1999 £m	1998 £m
Purchase of businesses	**(8.7)**	(193.1)
(Overdrafts)/cash balances acquired with businesses	**(4.1)**	2.9
Instalment received on loan made to W H Smith	**10.0**	10.0
Disposal of businesses	**64.5**	–
Overdrafts/(cash balances) sold with businesses	**0.1**	(7.1)
Deferred consideration in respect of prior year acquisitions and disposals	**(0.1)**	(0.7)
Costs of disposals paid	**(0.4)**	(2.4)
Investment in joint venture	**(6.5)**	–
Investment by minority interests in subsidiary undertaking	**0.4**	–
	55.2	(190.4)

5 Net interest

	1999 £m	1998 £m
Interest payable and similar charges:		
Bank loans and overdrafts	**(14.8)**	(14.2)
Other loans	**(27.8)**	(26.3)
Finance lease charges	**(1.3)**	(1.5)
Interest capitalised	**3.1**	6.5
Income from interest rate swaps	**8.8**	11.6
	(32.0)	(23.9)
Interest receivable and similar income	**13.7**	24.0
Increase in value of investment in 10.125% bond 2017	**16.5**	15.1
Net interest	**(1.8)**	15.2

6 Tax on profit on ordinary activities

	1999 £m	1998 £m
UK corporation tax at 31.0% (1998 31.0%)	**139.2**	165.9
Deferred taxation	**4.6**	0.2
Relief for overseas taxation	**(1.3)**	(0.8)
Total UK taxation	**142.5**	165.3
Overseas taxation	**4.4**	4.0
Overseas deferred taxation	**(0.6)**	(0.1)
Total	**146.3**	169.2
Tax (credit)/charge included above attributable to operating exceptional items	**(23.6)**	2.0

7 Profit for the financial year attributable to shareholders

Of the profit attributable to shareholders, £73.2m (1998 £1,050.7m) is dealt with in the financial statements of the parent company.

8 Dividends

	1999 p per share	1998 p per share	1999 £m	1998 £m
Interim	**7.1**	6.7	**64.8**	61.1
Final proposed	**16.7**	15.6	**149.7**	142.3
	23.8	22.3	**214.5**	203.4

9 Earnings per share	1999	1998
Basic earnings per share before exceptional items	**42.9p**	42.6p
Effect of exceptional items	**(40.3)p**	(13.6)p
Basic earnings per share	**2.6p**	29.0p
Fully diluted earnings per share before exceptional items	**42.5p**	42.2p
Effect of exceptional items	**(39.9)p**	(13.4)p
Fully diluted earnings per share	**2.6p**	28.8p

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

Earnings	1999 £m	1998 £m
Earnings for adjusted basic and diluted earnings per share calculation	**390.6**	387.3
Exceptional items	**(366.7)**	(123.3)
Earnings for basic and diluted earnings per share calculation	**23.9**	264.0

Number of shares	1999 million	1998 million
Weighted average number of shares used in basic earnings per share calculation	**911.1**	909.7
Dilutive effect of options	**8.3**	7.2
Weighted average number of shares used in fully diluted earnings per share calculation	**919.4**	916.9

The weighted average number of shares used in basic earnings per share calculation excludes shares held by the Boots ESOP Trust Ltd and the QUEST.

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

Basic and fully diluted earnings per share before exceptional items are disclosed to reflect the underlying performance of the group.

10 Intangible fixed assets	Group Purchased goodwill £m	Group Patents, trademarks and other product rights acquired £m	Group Total £m	Parent Patents, trademarks and other product rights acquired £m
Cost				
At 1st April 1998	–	44.8	44.8	8.7
Additions	–	16.3	16.3	0.3
Purchase of businesses (see note 4)	22.8	–	22.8	–
At 31st March 1999	**22.8**	**61.1**	**83.9**	**9.0**
Amortisation				
At 1st April 1998	–	15.5	15.5	5.7
Amortisation for year	0.9	3.1	4.0	0.5
At 31st March 1999	**0.9**	**18.6**	**19.5**	**6.2**
Net book value at 1st April 1998	–	29.3	29.3	3.0
Net book value at 31st March 1999	**21.9**	**42.5**	**64.4**	**2.8**

During the year Boots Healthcare International (BHI) acquired the brand rights to two consumer healthcare brands from the German over the counter company Klosterfrau for DM46.7m (£15.7m). These brands, Dobendan and its derivatives, and Migränin are well known and well positioned in their markets and BHI plans to improve this position. BHI have concluded that these brands have an indefinite useful economic life and they are not being amortised. As a consequence an annual impairment review will be undertaken. The valuation of these brands is significantly in excess of the carrying value.

11 Tangible fixed assets

Group	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation					
At 1st April 1998	924.7	294.4	1,131.3	62.7	2,413.1
Currency adjustments	0.8	0.4	0.3	–	1.5
Additions	41.0	70.3	208.2	49.9	369.4
Purchase of businesses	0.9	–	4.1	–	5.0
Disposals	(46.7)	(16.5)	(55.5)	(0.2)	(118.9)
Disposal of business	(35.2)	(11.5)	(32.4)	(0.4)	(79.5)
Reclassifications	16.6	10.4	18.3	(45.3)	–
Revaluation deficit on investment properties	(1.4)	–	–	–	(1.4)
Impairment losses on revalued assets	(1.7)	–	–	–	(1.7)
Property development transfer	–	–	–	6.9	6.9
At 31st March 1999	**899.0**	**347.5**	**1,274.3**	**73.6**	**2,594.4**
Gross book value of depreciable assets	160.6	347.5	1,274.3	60.4	1,842.8
Depreciation					
At 1st April 1998	40.9	121.3	586.0	–	748.2
Currency adjustments	0.1	–	(0.1)	–	–
Depreciation for year	7.9	33.6	91.5	–	133.0
Disposals	(0.9)	(12.2)	(43.2)	–	(56.3)
Disposal of business	(2.9)	(5.3)	(10.9)	–	(19.1)
Reclassifications	0.1	–	(0.1)	–	–
At 31st March 1999	**45.2**	**137.4**	**623.2**	**–**	**805.8**
Net book value at 1st April 1998	883.8	173.1	545.3	62.7	1,664.9
Net book value at 31st March 1999	**853.8**	**210.1**	**651.1**	**73.6**	**1,788.6**

The cost of tangible fixed assets includes £30.8m (1998 £26.9m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £9.6m (1998 £7.0m) and for which the depreciation charge for the year was £5.8m (1998 £4.9m).

Land and buildings and assets in course of construction include capitalised interest, net of taxation, of £5.2m (1998 £6.5m).

Land and buildings include investment properties as follows:

Valuation	£m
At 1st April 1998	122.4
Additions	6.3
Disposals	(24.9)
Reclassifications	2.8
Revaluation deficit	(1.4)
At 31st March 1999	**105.2**

Investment properties were valued on the basis of existing use value at 31st March 1999 by the group's own professionally qualified staff.

In accordance with SSAP19, no depreciation is provided in respect of investment properties. This represents a departure from the Companies Act 1985 requirements to provide for the systematic annual depreciation of fixed assets. However, these properties are held for investment, rather than consumption, and the directors consider that the adoption of the above policy is necessary to give a true and fair view.

11 Tangible fixed assets continued

Parent	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation					
At 1st April 1998	404.4	212.9	182.7	22.7	822.7
Additions	3.3	26.4	36.3	6.2	72.2
Disposals	(10.2)	(10.9)	(19.8)	(0.1)	(41.0)
Reclassifications and transfers	6.1	8.5	(1.2)	(20.1)	(6.7)
At 31st March 1999	**403.6**	**236.9**	**198.0**	**8.7**	**847.2**
Gross book value of depreciable assets	53.1	236.9	198.0	8.7	496.7
Depreciation					
At 1st April 1998	20.7	86.8	106.0	–	213.5
Depreciation for year	1.8	19.5	18.9	–	40.2
Disposals	(0.6)	(8.2)	(16.7)	–	(25.5)
Transfers	0.1	(1.0)	(1.0)	–	(1.9)
At 31st March 1999	**22.0**	**97.1**	**107.2**	**–**	**226.3**
Net book value at 1st April 1998	383.7	126.1	76.7	22.7	609.2
Net book value at 31st March 1999	**381.6**	**139.8**	**90.8**	**8.7**	**620.9**

The cost of tangible fixed assets includes £17.6m (1998 £15.2m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £5.5m (1998 £4.0m) and for which the depreciation charge for the year was £3.5m (1998 £2.5m).

	Group 1999 £m	Group 1998 £m	**Parent 1999 £m**	Parent 1998 £m
Net book value of land and buildings comprises:				
Freehold	**656.3**	712.0	**346.5**	355.5
Long leasehold (more than 50 years unexpired)	**162.2**	124.1	**35.1**	28.2
Short leasehold	**35.3**	47.7	**–**	–
	853.8	883.8	**381.6**	383.7
Analysis of cost or valuation:				
Cost	**1,897.6**	1,688.4	**839.6**	815.1
Valuation of properties – Directors 1993	**582.9**	593.6	**–**	–
– Independent 1989	**4.0**	4.0	**3.3**	3.3
– Independent 1965	**0.4**	0.4	**–**	–
– Independent 1958	**4.3**	4.3	**4.3**	4.3
Investment properties – Directors 1999	**105.2**	122.4	**–**	–
	2,594.4	2,413.1	**847.2**	822.7
Value of tangible fixed assets under the historical cost convention				
Cost	**2,317.5**	2,126.1	**846.5**	821.9
Depreciation	**804.9**	746.0	**225.9**	213.0
Net book value	**1,512.6**	1,380.1	**620.6**	608.9

The valuations are on an open market basis for existing use.

12 Fixed asset investments

	Group Joint venture equity £m	Group Own shares £m	Group Total £m	Parent Shares in subsidiary undertakings £m	Parent Loans to subsidiary undertakings £m	Parent Joint venture equity £m	Parent Own shares £m	Parent Total £m
Cost								
At 1st April 1998	–	4.2	4.2	1,738.8	73.1	–	4.2	1,816.1
Additions	6.5	166.4	172.9	26.3	28.6	6.5	166.4	227.8
Disposals and repayments	–	–	–	(178.8)	(6.9)	–	–	(185.7)
Currency adjustments	1.4	–	1.4	–	1.3	–	–	1.3
Share of retained loss	(1.7)	–	(1.7)	–	–	–	–	–
At 31st March 1999	**6.2**	**170.6**	**176.8**	**1,586.3**	**96.1**	**6.5**	**170.6**	**1,859.5**
Provision/amortisation								
At 1st April 1998	–	1.6	1.6	189.1	6.0	–	1.6	196.7
Disposal	–	–	–	(110.4)	–	–	–	(110.4)
Movement	–	–	–	(9.6)	(3.9)	–	–	(13.5)
Permanent diminution – QUEST	–	59.7	59.7	–	–	–	59.7	59.7
Amortisation of own shares – ESOP	–	3.1	3.1	–	–	–	3.1	3.1
At 31st March 1999	**–**	**64.4**	**64.4**	**69.1**	**2.1**	**–**	**64.4**	**135.6**
Net book value at 1st April 1998	–	2.6	2.6	1,549.7	67.1	–	2.6	1,619.4
Net book value at 31st March 1999	**6.2**	**106.2**	**112.4**	**1,517.2**	**94.0**	**6.5**	**106.2**	**1,723.9**

The principal subsidiary undertakings are listed on page 75.

Own shares

The Boots ESOP Trust Ltd, on behalf of The Boots Employee Trust, holds shares in the company which may subsequently be transferred to executive directors and senior employees under The Boots Long Term Bonus Scheme (see page 39) and The Boots Restricted Share Co-Investment Scheme. Under this latter scheme, awards under which have now ceased, participating senior employees purchased shares in the company using up to 50% of their annual bonus earned during the previous year and were granted a potential entitlement to receive a number of further shares equivalent to twice the pre-tax value of the sum invested. The employees' entitlement to receive the shares at the end of a specified performance period depends on the company's total shareholder return, compared to a peer group of companies, over that period. At 31st March 1999, the trust held 1.6m (1998 0.5m) shares in the company with a market value of £14.7m (1998 £5.0m). Dividends have been waived by the trust. The shares were purchased to service The Boots Long Term Bonus Scheme and The Boots Restricted Share Co-investment Scheme awards for all the performance cycles that have begun. Estimates have been made for the number of shares required for performance cycles which have not yet ended. Their cost, £15.8m, is being charged to the profit and loss account over the relevant performance and service periods. Costs of administering the trust are charged to the profit and loss account.

During the year a qualifying employee share ownership trust ('the trust') was established by the company under a deed of trust dated 16th February 1999. The purpose of the trust is to acquire shares in the company as a means through which shares will be delivered to employees (including executive directors) who exercised options granted in respect of the company's shares under the Boots 1990 SAYE Share Option Scheme. Under this scheme, options have been granted enabling employees to subscribe for ordinary shares at 80% of the average middle market price on the three days preceding the date of offer. The options may normally be exercised up to six months after they mature either three, five or seven years after grant.

At 31st March 1999 16.9m (1998 Nil) ordinary shares at a cost of £154.8m (1998 £Nil) with a market value of £150.9m (1998 £Nil) had been purchased by Boots (QUEST) Trustee Limited on behalf of the trust. The company provided funds to the trust for this purpose. A provision for permanent diminution in the value of shares of £59.7m has been charged to the profit and loss account as an exceptional item (see note 3). Dividends have been waived by the trust.

Outstanding options for which shares have been acquired are as follows:

Option granted	**Number of shares held (millions) 1999**	Number of shares held (millions) 1998	Option price (p)
1991	**0.1**	–	337
1992	**0.4**	–	352
1992	**0.2**	–	386
1993	**0.3**	–	350
1993	**0.4**	–	418
1994	**1.1**	–	421
1994	**1.0**	–	415
1995	**1.8**	–	410
1996	**3.0**	–	485
1997	**4.6**	–	588
1998	**4.0**	–	808

13 Stocks

	Group 1999 £m	Group 1998 £m	Parent 1999 £m	Parent 1998 £m
Manufacturing:				
Raw materials	**24.8**	25.3	**14.0**	15.1
Work in progress	**9.2**	11.6	**7.3**	9.8
Finished goods	**58.3**	51.6	**35.2**	31.8
	92.3	88.5	**56.5**	56.7
Retailing	**578.7**	583.4	**143.6**	138.1
Property development	**51.0**	37.4	**–**	–
	722.0	709.3	**200.1**	194.8

14 Debtors

	Group 1999 £m	Group 1998 £m	Parent 1999 £m	Parent 1998 £m
Falling due within one year:				
Trade debtors	**268.7**	227.0	**49.5**	31.4
Owed by subsidiary undertakings	**–**	–	**185.6**	2,142.1
Owed by joint venture	**1.7**	–	**1.5**	–
Other debtors	**43.0**	64.1	**58.9**	68.8
Prepayments and accrued income	**72.4**	65.8	**16.5**	18.4
Corporation tax	**2.3**	2.6	**–**	–
Advance corporation tax	**–**	27.4	**51.7**	26.4
	388.1	386.9	**363.7**	2,287.1
Falling due after more than one year:				
Owed by subsidiary undertakings	**–**	–	**250.9**	350.5
Other debtors	**14.1**	22.4	**22.3**	29.3
Advance corporation tax	**–**	35.6	**–**	35.6
Corporation tax	**–**	0.7	**–**	–
	14.1	58.7	**273.2**	415.4
	402.2	445.6	**636.9**	2,702.5

15 Current asset investments and deposits

	Group 1999 £m	Group 1998 £m	Parent 1999 £m	Parent 1998 £m
Listed investments	**0.1**	0.1	**–**	–
Short term deposits	**96.3**	218.8	**67.9**	195.7
Certificates of tax deposit	**9.4**	9.8	**9.4**	9.8
	105.8	228.7	**77.3**	205.5
Market value of investments listed on The London Stock Exchange	**0.2**	0.2	**–**	–

16 Creditors: Amounts falling due within one year

	Group 1999 £m	Group 1998 £m	Parent 1999 £m	Parent 1998 £m
Borrowings (see note 18)	**246.3**	196.9	**345.1**	1,273.3
Trade creditors	**360.2**	366.3	**270.4**	260.6
Bills of exchange	**2.8**	6.9	**0.1**	0.1
Due to subsidiary undertakings	**–**	–	**48.7**	47.8
Corporation tax	**106.0**	104.4	**8.3**	7.7
Advance corporation tax	**16.1**	50.9	**16.1**	50.8
Taxation and social security (including VAT and other sales taxes)	**37.0**	26.8	**16.1**	12.6
Other creditors	**171.0**	144.4	**83.8**	60.2
Accruals and deferred income	**101.8**	116.1	**47.6**	60.9
Dividends (see note 8)	**149.8**	142.3	**149.7**	142.3
	1,191.0	1,155.0	**985.9**	1,916.3

17 Creditors: Amounts falling due after more than one year

	Group 1999 £m	Group 1998 £m	Parent 1999 £m	Parent 1998 £m
Borrowings (see note 18)	**186.5**	216.8	**385.4**	394.2
Due to subsidiary undertakings	**–**	–	**104.9**	1,092.5
Due to joint venture	**0.2**	–	**–**	–
Other creditors	**5.1**	3.4	**2.4**	0.3
Accruals and deferred income	**38.9**	38.4	**20.9**	21.9
	230.7	258.6	**513.6**	1,508.9

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 1999 £m	Group 1998 £m	Parent 1999 £m	Parent 1998 £m
Bank loans and overdrafts repayable on demand		**130.3**	139.6	**277.2**	1,240.3
Other bank loans and overdrafts	a	**131.2**	140.7	**124.3**	138.6
Variable rate notes – Sterling	b	**28.3**	15.6	**11.4**	15.6
– Irish punts	b	**11.3**	11.1	**–**	–
Commercial paper		**39.7**	–	**39.7**	–
10.125% bond 2017	c	**65.8**	82.3	**259.6**	256.4
Net liability under currency swaps	d	**6.3**	4.7	**6.3**	4.7
Obligations under finance leases		**19.9**	19.7	**12.0**	11.9
		432.8	413.7	**730.5**	1,667.5
Amounts included above repayable by instalments		**221.3**	251.7	**136.2**	150.5
Repayments fall due as follows:					
Within one year:					
– Bank loans and overdrafts		**130.7**	139.9	**277.2**	1,240.3
– Obligations under finance leases		**7.8**	7.0	**4.8**	4.2
– Other borrowings		**107.8**	50.0	**63.1**	28.8
		246.3	196.9	**345.1**	1,273.3
After more than one year:					
– Within one to two years		**44.1**	37.5	**17.2**	16.5
– Within two to five years		**85.5**	104.2	**315.1**	306.3
– After five years		**56.9**	75.1	**53.1**	71.4
		186.5	216.8	**385.4**	394.2
		432.8	413.7	**730.5**	1,667.5

a Other bank loans and overdrafts include the factoring of certain rental commitments of £124.3m (1998 £138.6m) over a ten year period up to March 2007, £95m of which was swapped into a floating rate of interest.
b Variable rate notes are repayable, subject to certain restrictions, at the option of the holders.
c A subsidiary, Boots Investments Limited, owns all the £250m 10.125% bond 2017 of The Boots Company PLC, together with all the outstanding interest coupons other than those maturing on or before 24th June 2002. The parent company has entered into an agreement with Boots Investments Limited to redeem the bond on 25th June 2002 for an amount of £275m. The group balance sheet consolidates the borrowing by the parent company with the present value of the investment held by the subsidiary.
d The group has a number of US dollar currency swaps, which are equivalent to borrowing US dollars and depositing sterling for a fixed period. Following the disposal of Boots Pharmaceuticals on 31st March 1995, the group put in place a series of matching swaps, which are equivalent to depositing US dollars and borrowing sterling. The net liability shown above represents the effect of translating the above transactions into sterling at the year end exchange rate.
e The group has a number of interest rate swap agreements which convert fixed rate liabilities to floating rate. The fixed rate commitments effectively converted are, £55m of the 10.125% bond, £875m of operating leases and £95m referred to in note 'a' above. Further details are provided in the Financial Review on page 30.
f All borrowings are unsecured.

19 Financial instruments and derivatives

An explanation of treasury policy and controls can be found in the financial review on page 29.

(i) Fair values of financial assets and liabilities

The fair value of currency and interest rate swaps, fixed rate borrowings, and long term financial assets on which no interest is paid have been determined with reference to market prices using discounted cash flows. All other financial assets and liabilities are at floating rates of interest and therefore their fair value and book value are equal.

The majority of the interest rate swaps shown below relate to the swapping of implied fixed rate interest payments on operating leases to floating rate.

	Note	Book value 1999 £m	Fair value 1999 £m
Primary financial instruments held or issued to finance the company's operations:			
Cash in hand and bank		**32.2**	**32.2**
Current asset investments and deposits		**105.8**	**105.8**
Other financial assets	a	**22.2**	**21.4**
Bank loans and overdrafts repayable on demand		**(130.3)**	**(130.3)**
Obligations under finance leases		**(19.9)**	**(19.9)**
Other borrowings (excluding currency swaps)		**(276.3)**	**(294.1)**
Other financial liabilities	a	**(0.6)**	**(0.6)**
Derivative financial instruments held to manage interest rate and currency profile:			
Interest rate swaps relating to operating leases		**–**	**120.3**
Interest rate swaps relating to fixed rate borrowings		**–**	**15.7**
Currency swaps (see note 18)		**(6.3)**	**(14.9)**
Interest rate caps		**–**	**(1.2)**

a Other financial assets and liabilities are not included in net (debt)/funds (see note 24)

(ii) Interest rate risk profile as at 31st March 1999

The tables below reflect the interest rate risk profile after taking into account the effect of interest rate swaps.

(a) Financial liabilities

Currency	Floating rate £m	Fixed rate £m	Financial liabilities on which no interest is payable £m	Total £m	Fixed rate weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	(335.4)	(59.3)	(0.6)	(395.3)	8.3	4.9
Other	(30.7)	(7.4)	–	(38.1)	8.5	3.6
At 31st March 1999	**(366.1)**	**(66.7)**	**(0.6)**	**(433.4)**	**8.3**	**4.8**

The financial liability on which no interest is payable, is repayable on demand.

In addition to the financial instruments included above, the group also holds a number of interest rate swaps that are used to manage the implicit fixed rate interest on leases. At the year end the notional amount of these swaps was £875m, with an average life to maturity of 7.3 years and a weighted average fixed rate of 7.7%. The floating rate payable on these swaps is based on LIBOR and is capped at 9% for £700m of the swaps.

(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	85.3	–	22.5	107.8	–	–
Other	45.6	4.5	2.3	52.4	2.6	0.8
At 31st March 1999	**130.9**	**4.5**	**24.8**	**160.2**	**2.6**	**0.8**

The weighted average period to maturity of the sterling asset on which no interest is receivable is eight months. All other financial assets on which no interest is receivable 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 Irish punts and US dollar monetary liabilities amounting to £11.4m and £12.0m respectively.

There were no other material foreign currency monetary assets and liabilities that may give rise to an exchange gain or loss in the profit and loss account.

(iv) Maturity of financial instruments/facilities

At 31st March 1999 the company had the following undrawn committed facilities available:

	1999 £m
Expiring in one year or less	–
Expiring in more than one year but not more than two years	**60.0**
Expiring in more than two years	**540.0**
	600.0

(v) The maturity of borrowings

Details are shown in note 18.

(vi) Hedging

Gains arising from the hedging of interest rates of £8.8m (1998 £11.6m) have been recognised in the profit and loss account. Included in the amount for interest receivable from interest rate swaps is a charge of £0.4m relating to interest rate swaps begun in the current year. The fair values of unrecognised gains and losses at the balance sheet date are disclosed as part of note 19 (i) above. It is not possible to forecast meaningfully the amount that will be recognised in the profit and loss account next year. Further information about these hedges can be found within the financial review on page 30, note 18 and note 19 (ii).

20 Provisions for liabilities and charges

Group	Deferred taxation £m	Acquisition provisions £m	Disposal provisions £m	Total £m
At 1st April 1998	14.6	26.6	22.3	63.5
Prior year adjustment (see note below)	–	–	(12.0)	(12.0)
Restated	14.6	26.6	10.3	51.5
Profit and loss account	4.0	–	–	4.0
Subsidiaries acquired/disposed	1.2	(19.6)	2.0	(16.4)
Utilised	–	(6.5)	(4.2)	(10.7)
Currency adjustments	–	0.2	–	0.2
Transfers to creditors	–	–	(3.3)	(3.3)
At 31st March 1999	**19.8**	**0.7**	**4.8**	**25.3**

The acquisition provision represents recognition of costs arising as a result of acquisitions of businesses. At 31st March 1998 the majority of the provision related to onerous contracts in Do It All. At 31st March 1999 the majority of the provision relates to costs of integrating Hermal Kurt Herrman oHG, acquired last year, into Boots Healthcare International.

The disposal provision relates to recognition of costs arising as a result of the disposal of businesses. The significant proportion of this provision at 31st March 1999 relates to the disposal of Do It All which occurred during the year. At 31st March 1998 the majority of this provision related to the disposal of A G Stanley.

The prior period adjustment arises due to a release of provisions relating to businesses which have been disposed of that would not have been recognised under Financial Reporting Standard 12 'Provisions, Contingent Liabilities and Contingent Assets'. The effect on the balance sheet at 31st March 1998 is to reduce provisions for liabilities and charges and increase reserves for the group by £12.0m (parent £3.9m). This total relates to provisions of £8.1m set up in year ended 31st March 1992 and £3.9m in year ended 31st March 1995. There is no impact on the profit and loss account for either this year or the year ended 31st March 1998 but the impact on the year ended 31st March 1995 of an increase in 'other exceptional items' of £3.9m is reflected in the five year group financial record on pages 76 and 77.

Although the majority of provisions should be realised in the next few accounting periods the exact timing is unclear.

Parent	Deferred taxation £m	Disposal provisions £m	Total £m
At 1st April 1998	(0.9)	13.4	12.5
Prior year adjustment (see note above)	–	(3.9)	(3.9)
Restated	(0.9)	9.5	8.6
Profit and loss account	1.7	(3.4)	(1.7)
Subsidiaries acquired/disposed	–	3.1	3.1
Utilised	–	(1.9)	(1.9)
Transfers to creditors	–	(3.3)	(3.3)
At 31st March 1999	**0.8**	**4.0**	**4.8**

	Group 1999 £m	Group 1998 £m	**Parent 1999 £m**	Parent 1998 £m
Analysis of deferred taxation provision:				
Accelerated capital allowances	**11.8**	13.1	**–**	–
Other items	**8.0**	1.5	**0.8**	(0.9)
	19.8	14.6	**0.8**	(0.9)
Unprovided deferred taxation:				
Accelerated capital allowances	**79.6**	70.8	**28.6**	28.9
Other items	**(1.9)**	(1.7)	**(1.1)**	(0.9)
	77.7	69.1	**27.5**	28.0

It is not anticipated that any significant taxation will become payable on the revaluation surplus, as taxation on gains on properties used for the purposes of the group's trade is expected to be deferred indefinitely or eliminated by capital losses.

21 Capital and reserves

Group	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st April 1998	228.2	243.8	286.1	36.8	844.0	1,638.9
Prior year adjustment (see note 20)	–	–	–	–	12.0	12.0
Restated	228.2	243.8	286.1	36.8	856.0	1,650.9
Profit/(loss) retained	–	–	0.4	–	(190.6)	(190.2)
Movement in goodwill (see below)	–	–	–	–	310.8	310.8
Revaluation deficit	–	–	(1.4)	–	–	(1.4)
Revaluation surplus realised on disposals	–	–	(7.2)	–	7.2	–
Impairment losses on revalued assets	–	–	(1.7)	–	–	(1.7)
Issue of shares	0.6	8.2	–	–	–	8.8
Currency adjustments	–	–	–	–	3.0	3.0
At 31st March 1999	**228.8**	**252.0**	**276.2**	**36.8**	**986.4**	**1,780.2**

The revaluation reserve includes £5.5m (1998 £9.3m) relating to investment properties.

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

	£m
At 1st April 1998	1,094.7
Goodwill relating to acquisitions prior to 1st April 1998	1.4
Goodwill released on disposal of business	(312.2)
At 31st March 1999	**783.9**

Parent	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st April 1998	228.2	243.8	36.8	1,388.0	1,896.8
Prior year adjustment (see note 20)	–	–	–	3.9	3.9
Restated	228.2	243.8	36.8	1,391.9	1,900.7
Loss retained	–	–	–	(141.3)	(141.3)
Issue of shares	0.6	8.2	–	–	8.8
At 31st March 1999	**228.8**	**252.0**	**36.8**	**1,250.6**	**1,768.2**

22 Share capital

	Number of shares 1999 million	Number of shares 1998 million	1999 £m	1998 £m
Ordinary shares of 25p each:				
Authorised	1,200.0	1,200.0	300.0	300.0
Allotted, called up and fully paid	915.2	912.9	228.8	228.2

Shares allotted during the year	Number million	Nominal value £m	Consideration £m
Option schemes	2.3	0.6	8.8

Share options
Under a savings-related scheme, options may be granted enabling employees to subscribe for ordinary shares at approximately 80% of market price. At 31st March 1999, options exercisable from 1999 to 2006 at between 337p and 808p per share were outstanding in respect of 16.9m shares. During the year a qualifying employee share ownership trust was established to acquire shares in the company as a means by which shares would be delivered to employees exercising the options granted (see note 12).

Under an executive share option scheme, certain senior executives were granted options to subscribe for ordinary shares at a future date at a price based on the market price prevailing a few days before the date of grant. The practice of granting such options has ceased.

At 31st March 1999, such options were outstanding as follows:

Number of shares	Option price	Exercisable from 3rd June 1999 to
2,500	286p	July 2000
91,000	399p	July 2001
79,000	437p	August 2002
102,500	438p	June 2003
159,000	531p	June 2004
20,000	519p	November 2004
10,000	482p	February 2005

At 31st March 1999 there were no outstanding executive share options held by executive directors.

23 Detailed analysis of gross cash flows

	1999 £m	1998 £m
Exceptional operating cash flows:		
VAT recovered from HM Customs & Excise	**0.3**	14.0
Expenditure on terminating onerous contracts at Do It All	**(4.8)**	(36.4)
Restructuring and integration costs paid	**(9.3)**	(4.3)
Cash flows relating to prior year disposals	**(0.7)**	(1.2)
	(14.5)	(27.9)
Returns on investment and servicing of finance:		
Interest paid	**(43.1)**	(44.3)
Interest received	**18.2**	33.8
	(24.9)	(10.5)
Capital expenditure and financial investment:		
Purchase of fixed assets	**(372.1)**	(249.1)
Disposal of fixed assets	**73.7**	261.7
Purchase of own shares	**(160.1)**	(3.5)
	(458.5)	9.1
Management of liquid resources:		
Decrease in short term deposits	**122.8**	371.9
	122.8	371.9
Financing:		
Capital element of finance lease rental agreements	**(6.5)**	(5.5)
Increase/(decrease) in other borrowings	**25.9**	(15.0)
Cash inflow/(outflow) from change in borrowings and lease financing	**19.4**	(20.5)
Issue of ordinary share capital	**8.8**	11.7
	28.2	(8.8)

24 Analysis of net funds/(debt)

	As at 1st April 1998 £m	Cash flow £m	Acquisitions £m	Other non-cash changes £m	Currency £m	**As at 31st March 1999 £m**
Cash at bank and in hand	35.6	(4.2)	–	–	0.8	**32.2**
Bank loans and overdrafts repayable on demand	(139.6)	9.4	–	–	(0.1)	**(130.3)**
Cash	(104.0)	5.2	–	–	0.7	**(98.1)**
Liquid resources	228.7	(122.8)	–	(0.4)	0.3	**105.8**
Obligations under finance leases	(19.7)	6.5	–	(6.7)	–	**(19.9)**
Other borrowings (including currency swaps)	(254.4)	(25.9)	(16.8)	14.9	(0.4)	**(282.6)**
Total	(149.4)	(137.0)	(16.8)	7.8	0.6	**(294.8)**

Liquid resources comprise listed investments, short term deposits and certificates of tax 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 1999 £m	Group 1998 £m	**Parent 1999 £m**	Parent 1998 £m
Contracts placed	**107.9**	149.4	**16.0**	29.9

(ii) Annual commitments under operating leases at 31st March 1999 are as follows:

	Group Land and buildings £m	Group Other £m	Parent Land and buildings £m	Parent Other £m
Expiring:				
Within one year	**4.6**	**1.1**	**0.2**	**–**
Over one year and less than five years	**20.4**	**1.3**	**3.6**	**–**
Over five years	**144.5**	**–**	**2.6**	**–**
	169.5	**2.4**	**6.4**	**–**

(iii) Contingent liabilities

Knoll Pharmaceutical Co. ('Knoll') is a defendant in a number of consumer class actions in 30 states of the USA, Canada and Puerto Rico. Knoll is the successor to Boots Pharmaceuticals Inc., formerly an indirect subsidiary of the company, which was sold to the BASF group under agreements made by the company in March 1995. The company has been named as a defendant in some of these actions, which allege that the marketing of the product Synthroid did not comply with consumer protection and business practice laws. A provisional settlement by Knoll of most of the consumer actions was not approved by a federal court in Illinois. Actions have also been filed against Knoll by various insurers and state attorneys general and some additional claims have been asserted against the company. The company asserts that the relevant courts in North America have no jurisdiction over it in these cases and this has been accepted by a state court in Illinois. In the light of current information, the directors believe that the company has good defences to claims concerning Synthroid including any that might be brought by BASF and, while the outcome of such claims remains uncertain, they believe that it should not have a material adverse impact on the group.

26 Pensions

The group operates pension schemes throughout the world, most of which are final salary (defined benefit) schemes, and are fully funded.

The principal UK pension scheme is Boots Pension Scheme. The independent scheme actuary carried out the latest valuation of the scheme as at 1st April 1998 using the projected unit method. The financial assumptions were derived from market yields on bonds at the valuation date. The key assumptions used for accounting purposes and the resulting funding level are given below.

Pension increases	3.0% pa
General pay increases	4.5% pa
Investment return	6.5% pa
Market value of assets	£2,025m
Value of accrued liabilities	£1,674m
Funding level	121%

The pension charge for the year was £5m (1998 £5m). This arises as a result of the regular cost of pensions being offset by amortisation of the surpluses disclosed by the 1989, 1992 and 1998 valuations and increased by the amortisation of the deficit in respect of the 1995 valuation. The surplus disclosed at the 1998 valuation is being recognised over approximately 13 years, the expected average remaining service life of members. The remaining amortisation period of the surpluses/deficits disclosed at the 1989, 1992 and 1995 valuations are approximately three, seven and ten years respectively.

A pension provision of £17m (1998 £12m) is included within other creditors.

In common with other companies, additional pension arrangements exist for those more recently recruited senior executives whose benefits, relative to long serving staff, are subject to statutory restrictions.

27 Staff numbers and costs

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

	1999 Number of heads	1999 Full time equivalents	1998 Number of heads	1998 Full time equivalents
Continuing operations				
Boots The Chemists	**63,173**	**38,926**	58,369	36,923
Boots Retail International	**571**	**497**	311	259
Boots Opticians	**4,526**	**3,470**	4,349	3,307
Halfords	**9,936**	**6,327**	9,581	6,202
Boots Properties	**77**	**77**	92	91
Boots Healthcare International	**2,242**	**2,175**	1,952	1,905
Boots Contract Manufacturing	**4,155**	**4,077**	4,027	3,965
Central	**836**	**753**	721	678
	85,516	**56,302**	79,402	53,330
Discontinued operations				
Do It All	**1,878**	**1,260**	5,039	3,518
A G Stanley	**–**	**–**	1,029	656
Total	**87,394**	**57,562**	85,470	57,504

Total number of persons employed by continuing operations at 31st March 1999 was 83,369 heads, 54,603 full time equivalents (1998 82,100 heads, 54,425 full time equivalents).

The aggregate payroll cost was as follows:	1999 £m	1998 £m
Wages and salaries	**908.2**	866.5
Social security costs	**71.5**	66.0
Other pension costs	**6.4**	6.4
	986.1	938.9
Analysed as:		
Continuing operations	**965.3**	880.4
Discontinued operations	**20.8**	58.5
	986.1	938.9

28 Remuneration of directors and directors' shareholdings

Details of the remuneration, shareholdings and share options are included in the Board Remuneration Report on pages 37 to 41.

29 Related party disclosures

The group had no material transactions with related parties during the year.

Principal Companies

	Percentage held by parent	Percentage held by subsidiary undertakings	Country of incorporation where operating overseas	Principal activities
Parent				
The Boots Company PLC				Manufacturing, marketing and distribution of healthcare and consumer products
Subsidiary undertakings				
(incorporated in Great Britain)				
BCM Ltd.	100			Manufacturing pharmaceuticals and consumer products
Boots Development Properties Ltd.		100		Property development
Boots Healthcare International Ltd.	100			Marketing consumer products
Boots Opticians Ltd.		100		Registered opticians
Boots Properties PLC	100			Property holding
Boots The Chemists Ltd.	100			Retail chemists
Crookes Healthcare Ltd.	100			Marketing consumer products
Halfords Ltd.	100			Retailing of auto parts, accessories and bicycles and car servicing
Optrex Ltd.	100			Marketing consumer products
Subsidiary undertakings				Activities refer to healthcare and/or consumer products unless otherwise indicated
(incorporated overseas)				
Boots Healthcare Australia Pty. Ltd.	100		Australia	Marketing
Boots Healthcare Products (Austria) GmbH	100		Austria	Marketing
Boots Healthcare SA NV		100	Belgium	Marketing
Boots Healthcare SA		100	France	Marketing
BCM Cosmétique SA	100		France	Manufacturing and marketing (M&M)
Laboratoires Lutsia SA		100	France	M&M
Roval SA		100	France	Manufacturing
BCM Kosmetik GmbH	100		Germany	M&M
Hermal Kurt Herrman oHG		100	Germany	M&M
Boots (Retail Buying) Ltd.	100		Hong Kong	Buying
Boots Piramal Healthcare Ltd.	51*		India	Marketing
Boots Healthcare Ltd.	100		Ireland	Marketing
Boots Healthcare Marco Viti Farmaceutici S.p.A.	100		Italy	M&M
BCM Italia S.p.A.		100	Italy	Marketing
The Boots Company Japan k.k.	100		Japan	Marketing
Boots Investments Ltd.	100		Jersey	Investment company
Boots Trading (Malaysia) Sdn. Bhd.	100		Malaysia	Marketing
Boots Healthcare BV		100	Netherlands	Marketing
Boots Healthcare New Zealand Ltd.	100		New Zealand	Marketing
The Boots Company (Philippines) Inc	100		Philippines	Marketing
Boots Healthcare Sp.z.o.o.	100		Poland	Marketing
Boots Healthcare Portugal – Produtos De Saúde LDA		100	Portugal	Marketing
The Boots Company (Far East) Pte. Ltd.	100		Singapore	Marketing
Boots Healthcare S.A.	100		Spain	Marketing
Boots Healthcare (Switzerland) AG	100		Switzerland	Marketing
The Boots Company (Thailand) Ltd.	100		Thailand	Marketing
Boots Retail (Thailand) Ltd.	49	51	Thailand	Retail
Joint Venture				
Boots MC Company k.k. (Jointly controlled with Mitsubishi Corporation)	51		Japan	Retail

Percentages relate to holdings of ordinary share capital (*also includes preference share capital).
All companies operate principally in the country of incorporation.

Profit and loss account	**1999 £m**	1998 £m	1997 £m	1996 £m	1995* £m
Turnover	**5,044.6**	5,021.9	4,578.0	4,124.7	4,308.1
Group operating profit before exceptional items	**564.1**	538.0	491.8	442.6	520.2
Share of operating loss of joint venture	**(1.7)**	–	–	–	–
Total operating profit before exceptional items	**562.4**	538.0	491.8	442.6	520.2
Operating exceptional items	**(76.3)**	5.5	8.6	12.8	2.8
Total operating profit including joint venture	**486.1**	543.5	500.4	455.4	523.0
Other exceptional items	**(314.0)**	(126.8)	26.3	1.4	325.2
Profit on ordinary activities before interest	**172.1**	416.7	526.7	456.8	848.2
Net interest	**(1.8)**	15.2	44.4	50.9	5.4
Profit on ordinary activities before taxation	**170.3**	431.9	571.1	507.7	853.6
Taxation	**(146.3)**	(169.2)	(178.3)	(167.1)	(185.8)
Profit on ordinary activities after taxation	**24.0**	262.7	392.8	340.6	667.8
Minority interests	**(0.1)**	1.3	0.5	–	(4.7)
Profit attributable to shareholders	**23.9**	264.0	393.3	340.6	663.1
Dividends	**(214.5)**	(203.4)	(586.1)	(176.4)	(166.4)
Profit/(loss) retained	**(190.6)**	60.6	(192.8)	164.2	496.7

Total recognised gains and losses	**1999 £m**	1998 £m	1997 £m	1996 £m	1995* £m
Profit attributable to shareholders	**23.9**	264.0	393.3	340.6	663.1
(Deficit)/surplus on revaluation of properties	**(1.4)**	(1.4)	27.1	16.0	6.6
Impairment losses on revalued assets	**(1.7)**	–	–	–	–
Currency translation differences	**3.0**	(13.7)	(10.4)	3.3	(18.5)
Other net gains	**0.4**	–	0.3	–	0.2
Recognised gains and losses for the year	**24.2**	248.9	410.3	359.9	651.4
Prior period adjustment (see note 20)	**12.0**	–	–	–	–
Total gains and losses recognised since last annual report	**36.2**	248.9	410.3	359.9	651.4

Movements in shareholders' funds	**1999 £m**	1998 £m	1997 £m	1996 £m	1995* £m
Recognised gains and losses for the year	**24.2**	248.9	410.3	359.9	651.4
Dividends	**(214.5)**	(203.4)	(586.1)	(176.4)	(166.4)
New share capital subscribed	**8.8**	11.8	7.7	9.1	15.4
Repurchase of shares	**–**	–	(300.0)	–	(511.3)
Goodwill relating to acquisitions prior to 1st April 1998	**(1.4)**	(189.3)	(124.5)	(8.7)	(3.9)
Goodwill released on disposal of businesses	**312.2**	121.5	4.4	0.1	383.4
Scrip dividends	**–**	27.8	8.3	10.6	–
Currency adjustment on goodwill	**–**	–	–	–	33.6
Increase/(decrease) in shareholders' funds	**129.3**	17.3	(579.9)	194.6	402.2

*Restated as explained in note 20.

Balance sheet

	1999 £m	1998* £m	1997* £m	1996* £m	1995* £m
Fixed assets	**1,853.0**	1,694.2	1,803.5	1,651.0	1,526.7
Investments	**112.4**	2.6	0.5	46.4	30.6
Net current assets	**71.2**	264.2	184.4	700.3	761.9
Other creditors	**(230.7)**	(258.6)	(274.9)	(150.5)	(264.7)
Provisions for liabilities and charges	**(25.3)**	(51.5)	(80.0)	(33.7)	(35.6)
Net assets	**1,780.6**	1,650.9	1,633.5	2,213.5	2,018.9
Represented by:					
Shareholders' funds	**1,780.2**	1,650.9	1,633.6	2,213.5	2,018.9
Minority interests	**0.4**	–	(0.1)	–	–
	1,780.6	1,650.9	1,633.5	2,213.5	2,018.9

Cash flow statement

	1999 £m	1998* £m	1997* £m	1996* £m	1995* £m
Cash inflow from operating activities	**601.9**	605.6	515.1	536.5	642.3
Returns on investment and servicing of finance	**(24.9)**	(10.5)	39.1	16.2	7.4
Taxation	**(112.4)**	(232.8)	(174.4)	(152.7)	(139.5)
Capital expenditure and financial investment	**(458.5)**	9.1	(169.6)	(197.3)	(231.0)
Acquisitions and disposals	**55.2**	(190.4)	(40.4)	(48.4)	884.2
Equity dividends paid	**(207.1)**	(563.3)	(169.8)	(154.4)	(151.5)
Cash flow before use of liquid resources and financing	**(145.8)**	(382.3)	–	(0.1)	1,011.9
Management of liquid resources	**122.8**	371.9	288.5	122.8	(621.2)
Financing	**28.2**	(8.8)	(258.1)	(125.4)	(382.8)
Increase/(decrease) in cash	**5.2**	(19.2)	30.4	(2.7)	7.9

Statistics

	1999	1998*	1997*	1996*	1995*
Sales growth from continuing operations	**5.9%**	11.7%	13.8%	5.8%	3.4%
Return on shareholders' funds before exceptional items	**23.7%**	23.6%	16.3%	16.4%	22.8%
Earnings per share	**2.6p**	29.0p	42.9p	35.8p	66.1p
Earnings per share before exceptional items	**42.9p**	42.6p	39.5p	34.7p	36.0p
Net (debt)/funds	**(294.8)**	(149.4)	229.5	526.2	517.2
Capital expenditure	**369.4**	276.6	226.9	239.7	249.8

Return on shareholders' funds is calculated as profit on ordinary activities before exceptional items and after taxation as a percentage of opening shareholders' funds.

Shareholder value

	1999	1998*	1997*	1996*	1995*
Dividend per share	**23.8p**	22.3p	64.7p	18.5p	17.0p
Dividend cover before exceptional items	**1.8**	1.9	0.6	1.9	2.2
Share price:					
Highest	**1070p**	963p	701p	627p	582p
Lowest	**836p**	676p	555p	500p	458p

*Restated as explained in note 20.

Segmental Financial Record – Continuing Operations

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Turnover, including inter-segmental turnover:					
Boots The Chemists	**3,823.1**	3,573.7	3,313.5	3,107.6	2,943.8
Boots Retail International	**15.8**	5.2	–	–	–
Boots Opticians	**194.3**	182.9	148.1	132.3	119.1
Halfords	**457.3**	435.0	412.8	390.5	377.9
Boots Properties – Development	**4.8**	49.4	0.5	7.0	5.6
– Investment	**91.5**	100.2	101.6	95.9	92.4
Boots Healthcare International	**308.4**	273.7	243.4	206.7	203.5
Boots Contract Manufacturing	**309.8**	314.9	259.5	239.4	216.0
Operating profit before operating exceptional items:					
Boots The Chemists	**461.0**	443.8	426.5	384.8	349.7
Boots Retail International – group	**(19.2)**	(21.2)	(8.5)	(1.1)	–
– share of joint venture	**(1.7)**	–	–	–	–
Boots Opticians	**14.5**	17.0	13.8	10.9	8.3
Halfords	**40.3**	34.2	26.8	22.1	20.5
Boots Properties – Development	**(0.2)**	8.8	–	1.8	1.7
– Investment	**65.4**	67.2	72.1	66.4	65.1
Boots Healthcare International	**15.3**	1.2	(6.6)	(8.2)	9.8
Boots Contract Manufacturing	**24.3**	24.7	19.7	16.7	17.8
Capital expenditure:					
Boots The Chemists	**251.4**	146.9	88.3	86.1	81.6
Boots Retail International	**9.0**	4.8	1.1	–	–
Boots Opticians	**10.4**	7.8	8.9	11.2	18.8
Halfords	**15.5**	14.9	12.3	14.5	16.7
Boots Properties	**52.6**	61.6	63.8	75.1	73.6
Boots Healthcare International	**8.4**	7.4	11.0	12.5	5.7
Boots Contract Manufacturing	**20.5**	26.5	31.4	29.5	22.2

Shareholder Information

Annual general meetings
The annual general meeting will be held at 11.00 am on Thursday, 22nd July 1999 at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London. Each shareholder is entitled to attend and vote at the meeting, the arrangements for which are described in a separate notice.

The proposed date of the annual general meeting next year is 27th July 2000.

Dividend payments
The proposed final dividend (if approved) will be paid on 20th August 1999 to shareholders registered on 18th June 1999. Most shareholders (excluding those in Canada and the USA) will have the opportunity to reinvest their cash dividend in existing shares bought on the London Stock Exchange through a dividend reinvestment plan. All applications to join that plan or amend existing instructions under it must be received by the company's registrars by 5.00 pm on 30th July 1999.

The expected dividend payment dates for the year to 31st March 2000 are:

Interim dividend	February 2000
Final dividend	August 2000

Results
For the year to 31st March 2000:

Interim results announced	November 1999
Interim statement circulated	November 1999
Preliminary announcement of full year results	June 2000
Annual report circulated	June 2000

Capital gains tax
For capital gains tax purposes, the market price of the company's ordinary shares of 25p each on 31st March 1982 was 112.5p.

Low cost share dealing services
Details of special low cost dealing services in the company's shares may be obtained from:
– **Hoare Govett Limited** (telephone 0171 601 0101) Hoare Govett is regulated by the Securities and Futures Authority.
– **Natwest Stockbrokers Limited** (telephone 0171 895 5489) a member of the London Stock Exchange and regulated by the Securities and Futures Authority.

Both Hoare Govett Limited and Natwest Stockbrokers Limited have approved the references to them for the purposes of section 57 of the Financial Services Act 1986.

Registrar and Transfer Office
Computershare Services PLC, PO Box 82, Caxton House, Redcliffe Way, Bristol BS99 7NH. Telephone 0117 930 6600.

Company Secretary and Registered Office
I A Hawtin; The Boots Company PLC, Nottingham NG2 3AA. Telephone 0115 950 6111.
The Boots Company PLC is registered in England and Wales (No. 27657).

Analysis of shareholders at 31st March 1999

Shareholding range	Number	%	Total holding	%
1–500	42,718	34.57	10,099,796	1.10
501–1,000	29,602	23.95	22,313,294	2.44
1,001–10,000	48,221	39.02	123,577,883	13.50
10,001–100,000	2,439	1.98	61,577,267	6.73
100,001–1,000,000	461	0.37	153,994,070	16.83
Over 1,000,000	134	0.11	543,632,651	59.40
	123,575	100.00	915,194,961	100.00