

# Summary directors' remuneration report

**Remuneration policies** Executive directors' salaries and non-executive directors' fees have been positioned at the market median in the light of independent assessment of market practices. The Committee intends that executive directors' salaries (assuming no change in responsibilities) will be increased annually in line with inflation, subject to total pay being benchmarked against the market every three years and that over time the proportion of executive directors' total remuneration that is dependent upon performance will become greater. The committee has also introduced a personal performance measure into the executive directors' short term bonus scheme, in addition to the business performance tests.

The terms of the current Long Term Incentive Plan (LTIP) and Executive Share Option Plan were approved by the shareholders of The Boots Company PLC in 2001, and at the time were designed to have a value equal to 59.8% of executive directors' base pay. The current short term bonus scheme is likely to increase the percentage of directors' total pay dependent upon performance, but using the binomial valuation model, the value of the Executive Share Option Plan has reduced by 10.2% of base pay. Based upon current estimates of the value of short and long term incentive plans and share option schemes, variable (performance based) remuneration is likely to form 49.8% of the chief executive's total remuneration and 43.6% of other executive directors' total remuneration in 2003/04.

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

The short term executive bonus scheme rewards executive directors for achieving operating efficiencies and profitable growth in the relevant year by reference to challenging but achievable forecasts derived at the beginning of the year from strategic plans. During 2002/03, the performance criteria were profit after tax and sales growth and a combined bonus of up to 60% of base salary was payable depending upon performance against target.

The maximum short term bonus that can be earned in 2003/04 has been increased from 60% to (in the case of the chief executive) 100%, and (for all other directors) 75%. In 2003/04 one third of the available bonus depends on individual performance against personal targets, and two thirds depends upon business performance targets for sales, profit and return on capital. The business targets have been chosen for their relevance in driving short term performance of the business.

The long term bonus scheme can provide executive directors with a maximum potential bonus award worth up to 125% of basic salary, and provides a direct link between the pay of executive directors and the creation of value for shareholders by rewarding directors for the company's performance in terms of total shareholder return (TSR) over a three or four-year performance period relative to a peer group of ten other leading companies which the Committee consider to be appropriate comparators by virtue of their size and markets in which they operate. TSR was chosen as the appropriate performance measure for the Long Term Incentive Plan as it aligns the interests of the executive with the actual return received by shareholders.

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

Under the Executive Share Option Plan executive directors (and other employees) can be granted options to subscribe for ordinary shares in the company.

The Executive Share Option Plan aligns returns to shareholders with reward to executives but only if share price growth is achieved and if a performance target is met. An option is not exercisable unless a performance target has been met, and the value of the options is directly linked to share price movement. The condition imposed in respect of all options granted to date was average annual growth in earnings per share (EPS) over the relevant period at least equal to the increase in the index of retail prices + 3%. EPS growth is first compared to the performance condition at the end of the third year of the performance period. If the condition is not met, performance is re-tested annually until the end of the sixth year when, if the condition has still not been met, the options lapse. The EPS performance measure in the share option scheme provides an absolute (as opposed to relative) financial measure of company performance.

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

The Committee does not currently intend to propose any amendments to the executive share option or long term bonus schemes.

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

**Performance graph** The following graph, required by the Directors' Remuneration Report Regulations 2002, shows the total shareholder return over the five-year period to 31st March 2003 for the company's shares and the FTSE100 index. The FTSE100 is considered to be an appropriate index for comparison as the company forms part of that index, investors in the company are likely to regard other FTSE100 companies as alternative investments, and investors are familiar with it.



### Components of emoluments

**Salaries and fees** Salaries and fees paid to directors are shown in the table below.

**Short term executive bonus scheme** Performance against targets during the year was such that a bonus equal to 27% of salary was earned by executive directors.

**Other benefits** 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 directors' emoluments** Full details of directors' emoluments are set out in the directors' remuneration report, contained in the 2003 Annual Report and Accounts, copies of which are available on request. The cash elements of the remuneration for the year to 31st March 2003 are set out in the table below.

£000	Salaries and fees	Short term bonuses	Long term incentives	Other benefits	Compensation for loss of office	Commutation of accrued unapproved pension entitlements	Other payments on termination	Total 2003	Total 2002
P Bateman (from 1st April 2002)	260	70	–	25	–	–	–	355	–
J Bennink (from 10th September 2001)	32	–	–	–	–	–	–	32	17
Dr J G S Buchanan	34	–	–	–	–	–	–	34	30
B Clare (resigned 31st January 2003)	313	–	33	64	528*	1,200**	37***	2,175	496
H Dodd (from 1st April 2002)	350	95	–	1	–	–	–	446	–
F M Harrison (resigned 6th November 2002)	19	–	–	–	–	–	–	19	30
J B McGrath (chairman)	250	–	–	1	–	–	–	251	255
K S Piggott (resigned 31st December 2002)****	272	73	48	16	–	–	–	409	499
H Ploix	32	–	–	–	–	–	–	32	30
Dr M P Read	32	–	–	–	–	–	–	32	30
Sir Nigel Rudd (deputy chairman)	55	–	–	–	–	–	–	55	55
S G Russell	600	162	73	24	–	–	–	859	809
A P Smith	275	74	9	20	–	–	–	378	336
D A R Thompson (retired on 4th September 2002)	207	56	75	81	–	–	–	419	677
J J H Watson (retired on 31st July 2001)	–	–	–	–	–	–	–	–	185
	2,731	530	238	232	528	1,200	37	5,496	3,449

\*Includes nine months' salary in lieu of notice and £67,500 in respect of short term bonus.

\*\*Mr B Clare and certain of his dependants surrendered their entitlements under the unfunded unapproved retirement benefit scheme, and received a total of £1.2m being the actuarial value of these benefits.

\*\*\*The company also met the cost of certain legal and financial advice given to Mr B Clare.

\*\*\*\*Mr K S Piggott remains an employee of the company and received, in addition to the sums stated in this table, a salary of £45,313 and short term bonus of £11,328 in respect of the period from 1st January 2003 to 31st March 2003.