

Directors' report

The directors of Boots Group PLC present their annual report to shareholders, together with the audited financial statements for the year ended 31st March 2003.

Capital reorganisation

During the year a new group holding company was interposed between The Boots Company PLC and its shareholders through a scheme of arrangement (see share capital below). This was effective from 20th January 2003. References throughout the annual report and financial statements to the 'company' refer to Boots Group PLC from 20th January 2003 onwards and prior to that to The Boots Company PLC. The balance sheet and balance sheet items at 31st March 2003 relate to Boots Group PLC.

Principal activities

The group's principal activities during the year were:

- retailing of chemists' merchandise.
- the provision of opticians' and other healthcare services.
- the development, manufacture and marketing of healthcare and consumer products.

As explained below, the group completed the sale of its autoparts retailer on 30th August 2002.

Further information on the group's continuing activities is provided in the review of operations on pages 5 to 10.

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, chief executive's review and review of operations on pages 1 to 10.

Group results

The group profit and loss account for 2003 shown on page 33 includes the following details:

	2003 £m	2002 £m
Turnover (including share of joint ventures)	5,327.3	5,332.2
Profit on ordinary activities before exceptional items and taxation	555.4	638.7
Profit on ordinary activities before taxation	494.9	595.8

Appropriations

The directors recommend the payment of a final dividend of 20.2p per share which, if approved by shareholders, will be paid on 22nd August 2003 to shareholders registered on 20th June 2003. When added to the interim dividend of 8.4p paid on 7th February 2003, this makes a total dividend payment for the year of 28.6p per share (2002 27.4p per share). Payment of these dividends requires £230.7m (2002 £240.6m), leaving a profit of £71.0m (2002 £163.7m) retained in the business.

Group structure and operations

On 30th August 2002 Boots completed the sale of Halfords to CVC Capital Partners.

On 1st October 2002 Boots announced a major IT outsourcing contract with IBM.

On 7th November 2002 Boots announced it had agreed to acquire Granada's 40% stake in Digital Wellbeing Limited.

On 3rd February 2003 Boots and Sainsbury's announced the ending of their 'store within a store' trial.

On 4th February 2003 Boots announced the proposed closure of the Airdrie factory in Lanarkshire.

On 27th March 2003 Boots announced the withdrawal from certain wellbeing services and the closure or rationalisation of the European and Asia Pacific operations of Boots Retail International.

Share capital

Details of changes in the share capital are shown in note 22 to the financial statements.

Effective from 20th January 2003 the company acquired 100% of the issued share capital of The Boots Company PLC following implementation of a scheme of arrangement under section 425 of the Companies Act 1985. Under the scheme Boots Group PLC acquired all the shares of The Boots Company PLC and in consideration issued to shareholders one Boots Group PLC share for every one share held in The Boots Company PLC. Further details of this are given in note 22 to the financial statements.

At the annual general meeting of The Boots Company PLC on 25th July 2002 and an extraordinary general meeting of Boots Group PLC on 31st October 2002, shareholders authorised the company to make market purchases of its own ordinary shares of 25p each.

During the year the company entered the market and purchased 78.8 million shares which have subsequently been cancelled. This represented 9.7% of the shares in issue at the end of the period and the total cost was £462.8m.

At the forthcoming annual general meeting on 24th July 2003, 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 81.4 million ordinary shares, being approximately 10% of the ordinary shares in issue at the date of this report; the maximum price payable to be no more than 5% above 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.

Details of shares held by Boots Qualifying Employee Share Trust, Boots All Employee Share Ownership Plan and Boots ESOP Trust are shown in note 12 to the financial statements.

Shareholders

As at 4th June 2003 the register maintained by the company under Section 211 of the Companies Act 1985 contains a notification to the company that Legal & General Investment Management holds 3.00% of the issued ordinary share capital of the company and Lazard Freres & Co holds 3.00% 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 2003 is 21.8% higher than that stated in the financial statements. It is not anticipated that any significant taxation will become payable on the revaluation surplus, as taxation gains on properties used for the purpose of the group's trade are expected to be deferred indefinitely or eliminated by capital losses.

Payment of suppliers

The group is a signatory of the Better Payment Practice Code (a copy of the code is available from www.payontime.co.uk). It is the policy of the group 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' purchases outstanding for the group's UK operations at 31st March 2003 was 23 (2002 27 days). The company has no trade creditors.

Staff

The group 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 group'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 group 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

Cash donations for charitable and educational purposes in the UK for the year were £3.1m (2002 £2.1m). The company made no political payments in the accepted sense. However, it did permit employees time off work with pay to carry out their duties as local government councillors, and the company is advised that by so doing it may be considered to have incurred EU political expenditure or have made an EU political donation within the meaning of those terms in the Political Parties Elections and Referendum Act 2000. Further information on community investment is shown on page 12.

Directors

Details of directors are shown on page 13. Mr D A R Thompson was a director of The Boots Company PLC until his retirement from the board on 4th September 2002 and Mr B Clare was a director of The Boots Company PLC and of Boots Group PLC until his resignation on 31st January 2003. Ms F M Harrison was a director of The Boots Company PLC until her resignation on 6th November 2002 and Mr K S Piggott was a director of The Boots Company PLC until his resignation on 31st December 2002. Mr S G Russell ceased to be a director of Boots Group PLC on 31st May 2003, and Dr J G S Buchanan is not standing for reappointment.

As part of the capital reorganisation a new company, Halfords Group PLC, was incorporated on 31st May 2002, the name of which was changed on 11th October 2002 to Boots Group PLC – details of the share capital are set out in note 22 to the accounts. The original directors were Mr M J Oliver and Ms S Fennell who resigned on 5th November 2002 and were replaced by the continuing directors of The Boots Company PLC. They did not receive any reward for their services as directors.

All the current directors were appointed during the year and accordingly will retire at the annual general meeting in accordance with Article 88 and, other than Dr J G S Buchanan, offer themselves 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 2003 are shown in the directors' remuneration report on pages 21 to 28.

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

M J Oliver

Secretary

4th June 2003