

Notes relating to the financial statements

1 Segmental information

(i) Turnover by business segment

	Notes	2003 £m	2002 £m
Health		1,716.4	1,633.5
Beauty and Toiletries		1,891.9	1,770.9
Other		676.1	667.7
Boots The Chemists		4,284.4	4,072.1
Wellbeing Services		262.5	231.0
		4,546.9	4,303.1
Boots Healthcare International	a	430.1	385.5
Boots Retail International	b	35.6	40.3
Group and other	c	79.8	74.8
Continuing operations		5,092.4	4,803.7
Discontinued operation – Halfords		234.9	528.5
Turnover: group and share of joint ventures		5,327.3	5,332.2

a Boots Healthcare International also made inter-segmental sales of £30.3m (2002 £21.8m).

b Boots Retail International also made inter-segmental sales of £1.4m (2002 £nil).

c Group and other includes Boots Manufacturing third party sales of £68.1m (2002 £65.3m).

(ii) Turnover by geographical segment

	Origin 2003 £m	Origin 2002 £m	Destination 2003 £m	Destination 2002 £m
UK	4,952.5	4,955.3	4,823.5	4,868.9
Rest of Europe	304.7	279.1	329.0	304.0
Rest of World	158.1	141.6	174.8	159.3
Inter-segmental	(88.0)	(43.8)	–	–
	5,327.3	5,332.2	5,327.3	5,332.2

Included in the UK is turnover of £234.9m (2002 £528.5m) from discontinued operation – Halfords.

(iii) Profit before interest by business segment

	Notes	Before exceptional items 2003 £m	Total 2003 £m	Before exceptional items 2002 £m	Total 2002 £m
Boots The Chemists	a	568.6	566.6	605.2	579.9
Wellbeing Services		(28.6)	(64.0)	(33.1)	(33.1)
		540.0	502.6	572.1	546.8
Boots Healthcare International		70.1	70.1	66.7	56.5
Boots Retail International		(22.3)	(22.3)	(24.1)	(35.3)
Group and other	b	(66.2)	(58.2)	(43.5)	(43.6)
Continuing operations		521.6	492.2	571.2	524.4
Discontinued operation – Halfords		22.5	(100.7)	54.3	58.2
Profit before interest		544.1	391.5	625.5	582.6

a Boots The Chemists includes Digital Wellbeing Limited (DWL) operating loss of £14.7m. This includes share of joint venture loss of £11.8m (2002 £16.9m) which reflects DWL impairment of fixed assets amounting to £6.5m (2002 £nil). The comparative period also includes for the period up to 30th September 2001 bootsphoto.com losses of £17.3m, £10.4m of which was operating exceptional.

b Group and other includes £12.0m costs of rationalising the group's manufacturing facilities.

For an analysis of exceptional items see note 3 .

1 Segmental information continued**(iv) Profit before interest by geographical origin**

	Before exceptional items 2003 £m	Total 2003 £m	Before exceptional items 2002 £m	Total 2002 £m
UK	462.4	309.8	571.1	549.6
Rest of Europe	65.5	65.5	41.8	31.6
Rest of World	16.2	16.2	12.6	1.4
Total operating profit	544.1	391.5	625.5	582.6

Included in the UK is operating profit of £22.5m (2002 £54.3m) from discontinued operation – Halfords.

(v) Net assets by business segment

	2003 £m	2002 £m
Boots The Chemists	1,811.1	1,714.4
Wellbeing Services	104.5	105.0
	1,915.6	1,819.4
Boots Healthcare International	418.3	388.6
Boots Retail International	17.6	26.2
Other	85.7	111.6
Continuing operations	2,437.2	2,345.8
Discontinued operation – Halfords	–	197.1
Net operating assets	2,437.2	2,542.9
Unallocated net liabilities	(437.3)	(524.6)
	1,999.9	2,018.3

Net operating assets include intangible and tangible fixed assets, investment in joint ventures, stocks, third party debtors and creditors. Unallocated net liabilities includes own shares, all taxation balances, dividend creditors and net debt.

(vi) Net operating assets by geographical segment

	2003 £m	2002 £m
UK	2,061.0	2,225.1
Rest of Europe	219.6	183.3
Rest of World	156.6	134.5
	2,437.2	2,542.9

Included in the UK are net operating assets of £nil (2002 £197.1m) from discontinued operation – Halfords.

2 Total operating profit	Continuing operations 2003 £m	Discontinued operation 2003 £m	Total 2003 £m	Continuing operations 2002 £m	Discontinued operation 2002 £m	Total 2002 £m
Group turnover	5,090.3	234.9	5,325.2	4,799.8	528.5	5,328.3
Cost of sales	(2,724.3)	(121.7)	(2,846.0)	(2,535.4)	(252.2)	(2,787.6)
Gross profit	2,366.0	113.2	2,479.2	2,264.4	276.3	2,540.7
Selling, distribution and store costs	(1,475.3)	(77.1)	(1,552.4)	(1,336.5)	(193.1)	(1,529.6)
Research and development costs	(25.7)	–	(25.7)	(27.4)	–	(27.4)
Administrative expenses	(330.2)	(13.6)	(343.8)	(324.8)	(28.9)	(353.7)
Group operating profit	534.8	22.5	557.3	575.7	54.3	630.0
Share of operating loss of joint ventures	(13.2)	–	(13.2)	(20.9)	–	(20.9)
Total operating profit including share of joint ventures	521.6	22.5	544.1	554.8	54.3	609.1
Total operating profit before exceptional items	521.6	22.5	544.1	571.2	54.3	625.5

There have been no significant acquisitions during 2003.

Selling, distribution and store costs for continuing operations in 2002 included an exceptional charge of £14.9m.

Administrative expenses for continuing operations in 2002 included an exceptional charge of £1.5m.

Total operating profit is after charging:	2003 £m	2002 £m
Operating lease rentals		
– Property rents	190.1	212.0
– Computer and plant hire	9.4	3.4
Depreciation, amortisation and impairments of fixed assets	162.8	163.4
Auditors' remuneration, including £0.2m (2002 £0.4m) for the company	1.0	0.9

The group auditors and their associates also received £1.3m (2002 £4.2m) in respect of non-audit services in the UK. This represents less than 5% of consultancy and professional services costs of the group for 2003. This included other assurance work of £0.7m (2002 £nil), tax advice of £0.3m (2002 £0.3m) and other of £0.3m (2002 £3.9m).

3 Exceptional items	Continuing operations 2003 £m	Discontinued operation 2003 £m	Total 2003 £m	Continuing operations 2002 £m	Discontinued operation 2002 £m	Total 2002 £m
Profit/(loss) on disposal of fixed assets	5.1	–	5.1	(12.2)	6.2	(6.0)
Loss on disposal or closure of operations						
Provision for loss on closure of operations	(34.5)	–	(34.5)	–	–	–
Loss on disposal of business (see note 4)	–	(123.2)	(123.2)	(12.6)	(2.3)	(14.9)
Share of joint venture loss on closure of business	–	–	–	(5.6)	–	(5.6)
Total exceptional items before taxation	(29.4)	(123.2)	(152.6)	(30.4)	3.9	(26.5)
Attributable tax credit (see note 6)	9.4	1.7	11.1	1.6	0.4	2.0
	(20.0)	(121.5)	(141.5)	(28.8)	4.3	(24.5)

Provision for loss on closure of operations relates to the withdrawal from certain wellbeing services.

As detailed in note 5 an exceptional interest credit of £92.1m arose in the year to 31st March 2003, the tax on which is £27.6m.

In addition, in 2002 the following items included in continuing operating profit were regarded as exceptional:

- £10.4m charge relating to the withdrawal of the on-line photographic services of bootsphoto.com; and
 - £6.0m additional costs incurred within Boots The Chemists on the cost reduction programme and leisure exit.
- The attributable tax credit was £4.9m.

4 Acquisition and disposal of businesses

(i) Acquisitions

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

During the year the company agreed to acquire Granada's 40% stake in Digital Wellbeing Limited (DWL) for £1. In addition, Boots placed DWL in funds to settle £5.1m of Granada's loan funding of the company. Additionally, Boots The Chemists acquired a number of pharmacy businesses for £1.2m. There were no significant fair value adjustments in respect of any of these acquisitions.

(ii) Disposals	2003 £m	2002 £m
Intangible fixed assets	–	(2.8)
Tangible fixed assets	(109.9)	(6.8)
Stocks	(91.4)	(1.8)
Debtors	(6.4)	(0.8)
Cash	(21.5)	–
Other creditors and provisions	80.9	–
Net assets disposed of	(148.3)	(12.2)
Related goodwill	(349.3)	(22.4)
Disposal and other termination costs	(21.6)	(5.5)
Consideration	396.0	25.2
Loss on disposal of businesses	(123.2)	(14.9)
Share of joint venture loss on closure of business	–	(5.6)
Total loss on disposal	(123.2)	(20.5)

The principal disposal in the year was the sale of Halfords Limited (completed on 30th August 2002) to CVC Capital Partners. Halfords has been treated as a discontinued operation. The consideration of £396.0m reflects the final settlement on completion of the net asset value statement in December 2002.

The principal disposals in the year to 31st March 2002 were the sale in July 2001 of the skincare brands, Onagrine and Nobacter, to Beiersdorf, the disposal of the factory in France, an agreement with Mitsubishi Corporation (a joint venture partner) in July 2001 to close trial retail stores in Japan, and the disposal in August 2001 of the Halfords' garage service business to the Automobile Association.

(iii) Net cash inflow for acquisitions and disposals	2003 £m	2002 £m
Acquisition of businesses	(1.2)	(0.6)
Disposal of businesses	396.0	25.2
Cash balance sold with business	(21.5)	–
Cash balances acquired with businesses	1.0	–
Deferred consideration in respect of prior year acquisitions and disposals	0.6	1.0
Costs of disposals paid	(8.6)	(3.4)
Investment in joint ventures	(9.3)	(19.9)
Repayment of loan by joint venture	1.1	1.6
	358.1	3.9

5 Net interest receivable and similar items	Notes	2003 £m	2002 £m
Interest payable and similar charges:			
Bank loans and overdrafts		(7.9)	(9.3)
Other loans	a	(23.9)	(42.2)
Finance lease charges		(0.9)	(1.0)
Interest capitalised		–	0.3
Income from interest rate swaps		22.0	29.3
		(10.7)	(22.9)
Interest receivable and similar income		16.6	14.5
Increase in value of investment in 10.125% bond 2017	a	5.8	21.9
Share of interest of joint ventures		(0.4)	(0.3)
Net interest receivable and similar items before closure of interest rate swaps		11.3	13.2
Exceptional interest on closure of interest rate swaps		92.1	–
Net interest receivable and similar items	b	103.4	13.2

a Included in other loans is interest payable on the 10.125% bond 2017 of £5.8m (2002 £25.3m) and eurobond of £16.5m (2002 £16.5m). The 10.125% bond 2017 was redeemed on 25th June 2002. Following redemption there is no further impact on the profit and loss account. See note 18.

b Interest rate swaps – During the year the group reviewed its interest rate management policy and concluded that certain interest rate swaps were no longer an effective hedge to liabilities. As a result the group closed out £1,315m of interest rate swaps. £1,100m of these were lease related, and their closure resulted in the receipt of a net cash premium of £53.8m.

The group has also reviewed its accounting policies for hedging instruments to take account of recent developments in this area of accounting. In the light of current best practice and consistent with its change in treasury management practice the group has decided to adopt a new policy. This is shown in the accounting policies note on derivative financial instruments on page 38.

Under the group's previous accounting policy the £53.8m premium referred to above would have been released to the profit and loss account over the remainder of the original terms of the swap contracts, which at 31st March 2002 had an average maturity of 10 years. The group would also have continued to treat the unamortised surplus of £53.0m at 31st March 2002 from previous swap contract closures in the same way. The effect would have been to increase profits in future years as a consequence of a past treasury policy which has now been discontinued.

Under the group's new policy the surplus received in cash on closing out lease related swaps of £53.8m has been reported in the profit and loss account as an exceptional item. The unamortised surplus of £46.8m (£53.0m at 31st March 2002) from replacing swaps last year with equivalent derivatives has also been reported as an exceptional item following the closure of those replacement swaps. In addition a further £200m of interest rate swaps have been closed since 31st March 2003, and a cost of £13.0m has been included in the accounts to reflect this. This along with the surpluses noted above and other related items leaves a net exceptional credit to interest of £92.1m that would not have been credited under the previous policy.

A surplus of £12.2m arose in the period on closing out a portion of the swaps related to debt other than leases to which, therefore, hedge accounting continues to apply. Accordingly, this surplus (£11.0m at 31st March 2003) is held in the balance sheet and will be released to profit and loss account in accordance with the original maturities of the interest rate swaps closed out.

On adopting the new policy the directors have considered the extent to which it requires a restatement of figures reported in prior years. The change in accounting policy affects transactions where swap contracts are closed out without replacement by economically equivalent arrangements. As the group has not previously encountered these circumstances the directors have concluded that no prior year restatement is required.

6 Tax on profit on ordinary activities	2003 £m	2002 £m
Current tax:		
UK corporation tax at 30.0% (2002 30.0%)	210.4	158.4
Share of tax credit of joint ventures	(1.5)	(6.2)
Adjustments in respect of prior periods	(1.6)	(0.9)
	207.3	151.3
Relief for overseas taxation	(6.6)	(3.6)
	200.7	147.7
Overseas taxation	15.6	6.8
Total current tax charge for the year	216.3	154.5
Deferred taxation (see note 20):		
Share of deferred tax of joint ventures	(0.1)	(0.1)
Origination and reversal of timing differences	(23.5)	36.8
Tax on profit on ordinary activities	192.7	191.2
Tax credit included above attributable to exceptional operating items	–	(4.9)
Tax credit included above attributable to exceptional non-operating items	(11.1)	(2.0)
Tax charge included above attributable to exceptional interest	27.6	–

Reconciliation of current tax charge

The UK standard rate of corporation tax for the year is 30.0% (2002 30.0%). The actual tax charge for the current year exceeds (previous year is below) the standard rate for the reasons set out in the following reconciliation:

	2003 £m	2002 £m
Profit on ordinary activities before taxation	494.9	595.8
Tax on profit on ordinary activities at UK standard rate of corporation tax of 30.0% (2002 30.0%)	148.5	178.7
Factors affecting charge for the year:		
Changes in accelerated capital allowances	7.0	(4.4)
Changes in pension fund prepayment	6.3	(25.5)
Other timing differences	4.0	2.4
Intangibles amortisation	(4.5)	(12.2)
Disallowable expenses	19.3	10.2
Exceptional items	34.8	3.1
Foreign tax charged at higher rates than UK standard rate	2.5	3.1
Prior year adjustments	(1.6)	(0.9)
Total current tax charge for the year	216.3	154.5

Taxation on gains on properties used for the group's trade is expected to be deferred indefinitely or eliminated by capital losses.

The group has only recognised as a deferred tax asset overseas losses which are likely to be utilised in the next five years. Where there is no certainty of recovery no asset has been recognised. Unprovided deferred tax on losses net of amortisation is £20.8m (2002 £13.4m).

7 Profit for the financial year attributable to shareholders

The company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985.

Of the profit attributable to shareholders, £1,274.3m (2002 £nil) is dealt with in the financial statements of the company.

8 Dividends paid and proposed	2003 p per share	2002 p per share	2003 £m	2002 £m
Interim	8.4	8.1	69.3	71.5
Final proposed	20.2	19.3	161.4	169.1
	28.6	27.4	230.7	240.6

9 Earnings per share	2003	2002
Basic earnings per share before exceptional items	45.2p	49.9p
Effect of exceptional items	(9.2)p	(4.0)p
Basic earnings per share	36.0p	45.9p
Diluted earnings per share before exceptional items	45.1p	49.8p
Effect of exceptional items	(9.2)p	(4.0)p
Diluted earnings per share	35.9p	45.8p

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

	2003 £m	2002 £m
Earnings		
Earnings for basic and diluted earnings per share calculation before exceptional items	378.7	440.3
Exceptional items (see note 3)	(77.0)	(36.0)
Earnings for basic and diluted earnings per share calculation	301.7	404.3

	2003 million	2002 million
Number of shares		
Weighted average number of shares used in basic earnings per share calculation	838.1	881.6
Dilutive effect of options	1.6	2.4
Weighted average number of shares used in diluted earnings per share calculation	839.7	884.0

The weighted average number of shares used in basic earnings per share calculation excludes shares held by The Boots ESOP Trust, the QUEST and unappropriated shares held by Boots Share Plan Trustees.

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

Basic and 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	Patents, trademarks and other product rights acquired £m	Total £m
Cost			
At 1st April 2002	31.1	297.2	328.3
Currency adjustments	–	7.4	7.4
Additions	0.9	0.3	1.2
Disposal of business	–	(0.2)	(0.2)
Disposals	(1.0)	(0.3)	(1.3)
At 31st March 2003	31.0	304.4	335.4
Amortisation			
At 1st April 2002	5.0	25.1	30.1
Currency adjustments	–	0.4	0.4
Charge for the year	1.4	2.8	4.2
Disposal of business	–	(0.2)	(0.2)
Disposals	(0.1)	(0.3)	(0.4)
At 31st March 2003	6.3	27.8	34.1
Net book value at 31st March 2002	26.1	272.1	298.2
Net book value at 31st March 2003	24.7	276.6	301.3

Brands acquired by the company or by its subsidiaries, namely Clearasil, Dobendan and its derivatives, and Migränin are well known and well positioned in their markets and Boots Healthcare International (BHI) plans to improve this position. BHI concluded that these brands have an indefinite useful economic life and they are not being amortised. As a consequence an annual impairment review is being undertaken. The valuation of these brands is significantly in excess of latest carrying value of £264.2m.

11 Tangible fixed assets

Group	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 1st April 2002	846.8	368.8	1,534.3	2,749.9
Currency adjustments	1.4	1.1	0.2	2.7
Additions	6.6	28.0	114.6	149.2
Disposals	(57.9)	(24.1)	(248.6)	(330.6)
Purchase of business	–	–	0.2	0.2
Disposal of business (see note 4)	(25.8)	(3.4)	(182.9)	(212.1)
Reclassifications and transfers	0.5	2.8	(3.3)	–
Revaluation surplus on investment properties	16.4	–	–	16.4
At 31st March 2003	788.0	373.2	1,214.5	2,375.7
Depreciation				
At 1st April 2002	66.0	197.3	758.9	1,022.2
Currency adjustments	0.3	0.5	0.2	1.0
Depreciation for year	8.8	39.0	93.7	141.5
Disposals	(5.7)	(16.9)	(180.0)	(202.6)
Disposal of business (see note 4)	(8.2)	(1.3)	(92.7)	(102.2)
Reclassifications and transfers	0.5	–	(0.5)	–
Depreciation release on revaluation of investment properties	(0.7)	–	–	(0.7)
At 31st March 2003	61.0	218.6	579.6	859.2
Net book value at 31st March 2002	780.8	171.5	775.4	1,727.7
Net book value at 31st March 2003	727.0	154.6	634.9	1,516.5

11 Tangible fixed assets continued

The cost of plant and machinery includes £22.2m (2002 £24.4m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £10.1m (2002 £6.0m) and for which the depreciation charge for the year was £3.7m (2002 £4.1m).

Land and buildings includes capitalised interest of £4.6m (2002 £4.6m).

The table on page 47 includes payments on account and assets in course of construction of £26.8m (2002 £32.1m).

Land and buildings include investment properties as follows:

Valuation	£m
At 1st April 2002	67.7
Additions	0.6
Disposals	(48.1)
Revaluation surplus	17.1
Reclassifications and transfers	31.4
At 31st March 2003	68.7

Investment properties were valued on the basis of open market value (adjusted to exclude the benefit of formal lease arrangements with group companies, as determined in accordance with the Guidance Notes on the valuation of assets issued by the Royal Institution of Chartered Surveyors) at 31st March 2003 by the group's own professionally qualified staff.

Following the disposal of Halfords Ltd on 30th August 2002 properties retained by the group, but let to Halfords, were reclassified as investment properties and revalued to open market value. All but one of these properties was subsequently disposed of during the year.

Surpluses and deficits arising and the aggregate surplus or deficit is transferred to the revaluation reserve except that any permanent diminution in value of an investment property is taken to the profit and loss account for the year.

In accordance with SSAP19, no depreciation is provided in respect of investment properties. This treatment represents a departure from the Companies Act 1985 requirements concerning depreciation of fixed assets. However, these properties are held for investment, rather than consumption, and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

	Group 2003 £m	Group 2002 £m
Net book value of land and buildings comprises:		
Freehold	563.8	596.0
Long leasehold (more than 50 years unexpired)	144.0	145.4
Short leasehold	19.2	39.4
	727.0	780.8
Analysis of cost or valuation:		
Cost	1,773.9	2,120.3
Valuation of properties – Directors 1993	524.5	553.3
– Independent 1989 and prior	8.6	8.6
Investment properties – Directors 2003	68.7	67.7
	2,375.7	2,749.9
Value of tangible fixed assets under the historical cost convention:		
Cost	2,106.4	2,487.5
Depreciation	852.2	1,016.2
Net book value	1,254.2	1,471.3

The valuations of properties (other than investment properties) were based upon existing use.

12 Fixed asset investments				
Group	Joint venture equity £m	Loans to joint venture £m	Own shares £m	Total £m
Cost				
At 1st April 2002	(24.8)	42.8	156.5	174.5
Additions	–	9.3	8.0	17.3
Disposals	28.0	(42.1)	(20.1)	(34.2)
Share of retained losses	(12.0)	–	–	(12.0)
At 31st March 2003	(8.8)	10.0	144.4	145.6
Provision/amortisation				
At 1st April 2002	–	–	52.8	52.8
Disposals	–	–	(9.0)	(9.0)
Impairments	–	1.2	5.6	6.8
Amortisation of own shares – ESOP	–	–	2.1	2.1
– AESOP	–	–	8.2	8.2
At 31st March 2003	–	1.2	59.7	60.9
Net book value at 31st March 2002	(24.8)	42.8	103.7	121.7
Net book value at 31st March 2003	(8.8)	8.8	84.7	84.7

Company	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost and net book value			
Currency adjustments	–	3.9	3.9
Additions	209.0	1,174.5	1,383.5
At 31st March 2003	209.0	1,178.4	1,387.4

The principal subsidiary undertakings are listed on page 63. The group also has a 50% investment in handbag.com Ltd., a joint venture. Minority shareholders have equity holdings in Boots Piramal Healthcare Ltd., incorporated in India.

Own shares

ESOP

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 Boots Long Term Bonus Schemes (see page 24). At 31st March 2003, the trust held 1.4m (2002 1.8m) shares in the company with a market value of £7.6m (2002 £11.9m) and a nominal value of £0.4m (2002 £0.4m). The maximum number of shares held during the year was as at the beginning of the year and represented 0.2% of issued share capital at that time. Dividends have been waived by the trust. Estimates have been made for the number of shares required for performance cycles which have not yet ended. Their cost, £13.2m as at 31st March 2003, 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.

QUEST

In February 1999 a qualifying employee share ownership trust (QUEST) was established by the company. The purpose of the QUEST is to acquire shares in the company as a means through which shares will be delivered to employees (including executive directors) who exercise options granted in respect of the company's shares under the Boots 1990 SAYE Share Option Scheme.

At 31st March 2003 13.0m (2002 14.9m) ordinary shares with a market value of £68.8m (2002 £100.1m) and a nominal value of £3.2m (2002 £3.7m) were held by the QUEST of which 8.6m shares related to lapsed options. The maximum number of shares held during the year was as at the beginning of the year and these represented 1.7% of the issued share capital at that time. Dividends have been waived by the trust.

12 Fixed asset investments continued**AESOP**

In the year to 31st March 2001 an all employee share ownership plan (AESOP) was established by the company. One purpose of the AESOP is to acquire shares to be conditionally gifted to employees and hold them in trust for not less than three years. Under this scheme, which is open to all employees, 1.2m shares (2002 nil) were acquired during the year. A further conditional gift of shares will be made in June 2003. The cost of shares acquired and conditionally gifted is being written off through the profit and loss account over the relevant periods of the schemes. The charge for the current year totalled £8.2m (2002 £5.8m). Dividends are payable on appropriated shares held in the trust, but waived in respect of those unappropriated (if any). At 31st March 2003 2.7m (2002 1.6m) shares were held with a market value at that date of £14.5m (2002 £10.6m) and a nominal value of £0.7m (2002 £0.4m). The maximum number of shares held during the year was as at the end of the period and these represented 0.3% of the share capital issued at that time.

The **ESOP Trust**, **QUEST** and the **AESOP** are considered for accounting purposes to be under the control of the company. Accordingly their results, assets and liabilities are included in the group financial statements of Boots Group PLC.

The group has taken advantage of exemptions under UITF17 'Employee Share Schemes' relating to the Inland Revenue approved SAYE schemes and the QUEST.

13 Stocks	Group 2003 £m	Group 2002 £m
Manufacturing:		
Raw materials	27.5	22.0
Work in progress	10.0	7.7
Finished goods	81.4	62.9
	118.9	92.6
Retailing	508.5	543.6
Property development	11.2	11.9
	638.6	648.1

14 Debtors	Group 2003 £m	Group 2002 £m	Company 2003 £m
Falling due within one year:			
Trade debtors	346.1	317.4	–
Owed by subsidiary undertakings	–	–	3.8
Owed by joint ventures	0.1	4.6	–
Other debtors	90.6	126.8	–
Deferred tax asset (see note 20)	1.7	2.4	–
Prepayments and accrued income	97.6	96.2	0.8
Corporation tax	0.5	2.6	–
	536.6	550.0	4.6
Falling due after more than one year:			
Other debtors	110.8	90.7	–
Deferred tax asset (see note 20)	3.2	5.4	–
	114.0	96.1	–
	650.6	646.1	4.6

Other debtors include pension prepayments (see note 26).

15 Current asset investments and deposits	Group 2003 £m	Group 2002 £m	Company 2003 £m
Listed investments	0.1	0.1	–
Short term deposits	293.0	308.6	275.0
	293.1	308.7	275.0
Market value of investments listed on the London Stock Exchange	0.2	0.2	–

16 Creditors: Amounts falling due within one year	Group 2003 £m	Group 2002 £m	Company 2003 £m
Borrowings (see note 18)	186.9	153.7	1.3
Trade creditors	367.9	360.1	–
Bills of exchange	1.0	1.7	–
Corporation tax	126.1	119.4	1.8
Taxation and social security (including VAT and other sales taxes)	33.0	53.8	–
Other creditors	122.1	161.7	7.3
Accruals and deferred income	114.3	155.2	3.3
Dividends (see note 8)	161.4	169.1	161.4
	1,112.7	1,174.7	175.1

17 Creditors: Amounts falling due after more than one year	Group 2003 £m	Group 2002 £m	Company 2003 £m
Borrowings (see note 18)	361.1	401.7	308.8
Due to subsidiary undertakings	–	–	6.2
Due to joint ventures	2.7	9.4	–
Other creditors	6.0	7.8	–
Accruals and deferred income	32.0	61.1	–
	401.8	480.0	315.0

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 2003 £m	Group 2002 £m	Company 2003 £m
Bank loans and overdrafts repayable on demand		149.7	111.2	1.3
Other bank loans and overdrafts	a	86.0	101.7	–
Variable rate notes – Sterling	b	0.5	2.7	–
– Euro		–	3.5	–
10.125% bond 2017	c	–	5.8	–
5.5% eurobond 2009	d	300.0	300.0	308.8
Net liability under currency swaps	e	–	12.4	–
Obligations under finance leases		11.8	18.1	–
		548.0	555.4	310.1
Amounts included above repayable by instalments		81.1	113.6	–
Repayments fall due as follows:				
Within one year:				
– Bank loans and overdrafts		166.2	111.2	1.3
– Obligations under finance leases		4.2	7.9	–
– Other borrowings		16.5	34.6	–
		186.9	153.7	1.3
After more than one year:				
– Within one to two years		21.9	40.6	–
– Within two to five years		39.2	61.1	–
– After five years		300.0	300.0	308.8
		361.1	401.7	308.8
		548.0	555.4	310.1

a Other bank loans and overdrafts include £69.3m (2002 £85.1m) that relate to the factoring of certain rental commitments over a ten-year period up to March 2007, £30m (2002 £85.1m) 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, owned 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 Boots Company PLC 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 nets the present value of the investment held by the subsidiary against the borrowing by the company. Note 5 discloses the appreciation in value of the investment held by the subsidiary and the interest charge on the borrowing by The Boots Company PLC. The bond was redeemed on 25th June 2002.

d The 5.5% eurobond 2009 was transferred from The Boots Company PLC to the new holding company, Boots Group PLC, on 20th January 2003 at its market value on that date of £308.8m.

e On the disposal of Boots Pharmaceuticals in 1995 the group put in place a series of matching swaps which matured in 2002/03 and were the equivalent to depositing US dollars and borrowing sterling. The net liability shown above represented the effect of translating these swaps into sterling at the year end exchange rate.

The group has a number of interest rate swap agreements which convert fixed rate liabilities to floating rate. The fixed rate commitments effectively converted at 31st March 2003 are; £150m (2002 £300m) of the 5.5% eurobond 2009, £30m (2002 £85.1m) of factored rental commitments and £200m of index linked swaps. Further details are provided in the financial review.

All borrowings are unsecured.

19 Financial instruments and derivatives

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

The disclosures for short term debtors and creditors have been excluded from the numerical disclosures in sections (i) and (ii) below as permitted by FRS 13 'Derivatives and Other Financial Instruments: Disclosures'.

(i) Fair values of financial assets and liabilities

The fair values of currency and interest rate swaps and fixed rate borrowings have been determined with reference to market prices. All other material financial assets and liabilities are at floating rates of interest and therefore their fair value and book value are equal.

	Note	Book value 2003 £m	Fair value 2003 £m	Book value 2002 £m	Fair value 2002 £m
Primary financial instruments held or issued to finance the company's operations:					
Cash in hand and bank		203.4	203.4	100.4	100.4
Current asset investments and deposits		293.1	293.2	308.7	308.7
Other financial assets	a	–	–	0.5	0.5
Bank loans and overdrafts repayable on demand		(149.7)	(149.7)	(111.2)	(111.2)
Eurobond		(300.0)	(310.8)	(300.0)	(296.9)
Obligations under finance leases		(11.8)	(11.8)	(18.1)	(18.1)
Other borrowings (excluding currency swaps)		(86.5)	(92.6)	(113.7)	(119.3)
Other financial liabilities	a	(0.5)	(0.5)	(0.6)	(0.6)
Derivative financial instruments held to manage interest rate and currency profile:					
Interest rate swaps		(10.1)	1.0	11.7	33.9
Currency swaps (see note 18)		–	–	(12.4)	(14.7)

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

(ii) Interest rate risk profile

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	(525.3)	(1.1)	(0.5)	(526.9)	6.0	5.3
Other	(30.9)	–	(0.8)	(31.7)	–	–
At 31st March 2003	(556.2)	(1.1)	(1.3)	(558.6)	6.0	5.3
Sterling	(503.3)	(18.1)	(0.5)	(521.9)	6.2	1.6
Other	(17.9)	(14.0)	(0.5)	(32.4)	8.7	0.7
At 31st March 2002	(521.2)	(32.1)	(1.0)	(554.3)	7.3	1.2

The sterling and other financial liabilities on which no interest is paid have weighted average periods to maturity of three and two years respectively (2002 five and two years).

19 Financial instruments and derivatives continued**(ii) Interest rate risk profile continued****(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	391.5	0.3	0.2	392.0	2.0	–
Other	91.2	10.3	3.0	104.5	3.1	0.6
At 31st March 2003	482.7	10.6	3.2	496.5	3.1	0.6
Sterling	317.8	0.5	–	318.3	5.0	3.0
Other	93.6	5.7	2.0	101.3	3.3	1.0
At 31st March 2002	411.4	6.2	2.0	419.6	3.4	1.1

Other financial assets on which no interest is received 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.

(iii) Foreign currency exposure profile

Operations with a sterling functional currency have Euro and US dollar monetary assets/(liabilities) amounting to £11.1m (2002 £(14.5)m) and £4.3m (2002 £(7.2)m) respectively. Operations with an other financial currency have US dollar monetary assets of £2.3m (2002 £nil).

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 facilities

The group's undrawn committed facilities at 31st March 2003 of £462m (2002 £600m) expire in March 2004.

(v) The maturity of borrowings

Details are shown in note 18.

(vi) Hedging

Gains arising from the hedging of interest rates are explained in note 5. Deferred gains of £11.0m resulting from the closure of interest rate swaps in respect of fixed rate borrowings are held in the balance sheet. It is expected that £2.5m will be recognised in the profit and loss account next year.

20 Provisions for liabilities and charges

Group	Deferred taxation £m	Vacant property provisions £m	Closure or termination of operations £m	Total £m
At 1st April 2002	167.2	10.7	–	177.9
Transfer from debtors (see note 14)	(7.8)	–	–	(7.8)
Currency adjustment	3.1	–	–	3.1
Profit and loss account	(23.5)	1.0	45.7	23.2
Acquisition of business	(7.1)	–	–	(7.1)
Disposal of business	(9.3)	–	–	(9.3)
Utilised	–	(2.1)	(9.0)	(11.1)
Transfer to debtors (see note 14)	4.9	–	–	4.9
At 31st March 2003	127.5	9.6	36.7	173.8

The vacant property provisions represent recognition of the net costs arising from vacant properties and sub-let properties, the exact timing of utilisation of these provisions will vary according to the individual properties concerned.

The provision for closure or termination of operations relates to recognition of costs arising as a result of the Halfords disposal, the withdrawal from certain wellbeing services and the rationalising of the group's manufacturing facilities. The majority of the costs are expected to be incurred in the next two years.

20 Provisions for liabilities and charges continued

	Group 2003 £m	Group 2002 £m
Analysis of deferred taxation provision:		
Accelerated capital allowances	74.2	94.0
Intangibles amortisation	33.1	24.4
Pension prepayments	44.8	51.6
Other items	(24.6)	(2.8)
	127.5	167.2
Deferred tax asset:		
Overseas losses (included in debtors – see note 14)	4.9	7.8

Unprovided deferred tax relating to property revaluations and rolled-over gains is not readily quantifiable but it is expected to be fully offset by available capital losses.

21 Capital and reserves

Group	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1st April 2002	223.2	253.9	254.4	42.6	–	1,243.5	2,017.6
Profit retained	–	–	–	–	–	71.0	71.0
New share capital of The Boots Company PLC issued	–	0.1	–	–	–	–	0.1
Group reorganisation	–	(254.0)	–	(56.7)	310.8	(0.5)	(0.4)
Movement in goodwill (see below)	–	–	–	–	–	349.3	349.3
Revaluation surplus on investment properties	–	–	17.1	–	–	–	17.1
Revaluation surplus realised on disposals	–	–	(10.2)	–	–	10.2	–
Revaluation reserve element of depreciation charge	–	–	(1.0)	–	–	1.0	–
Repurchase of shares (see note 22)	(19.7)	–	–	19.7	–	(462.8)	(462.8)
Currency adjustments	–	–	–	–	–	7.5	7.5
At 31st March 2003	203.5	–	260.3	5.6	310.8	1,219.2	1,999.4

The revaluation reserve includes £4.6m (2002 £(1.0)m) relating to investment properties.

The balance on the merger reserve at 31st March 2003 represents the difference between called up share capital of the Company and the called up share capital, share premium account and capital redemption reserve of the former holding company (The Boots Company PLC) at 20th January 2003, the date of the capital reorganisation.

Goodwill set off against reserves is as follows:

	£m
At 1st April 2002	743.6
Goodwill released on disposal of business	(349.3)
At 31st March 2003	394.3

Company	Called up share capital £m	Capital redemption reserve £m	Profit and loss account £m	2003 Total £m
Profit retained for the financial period	–	–	1,112.9	1,112.9
Group reorganisation:				
– issue of shares in Boots Group PLC	209.0	–	(0.4)	208.6
– issue of preference shares	0.1	–	–	0.1
– redemption of preference shares	(0.1)	0.1	(0.1)	(0.1)
Repurchase of shares (see note 22)	(5.5)	5.5	(120.1)	(120.1)
At 31st March 2003	203.5	5.6	992.3	1,201.4

22 Share capital	Number of shares 2003 million	Number of shares 2002 million	2003 £m	2002 £m
Ordinary shares of 25p each:				
Authorised	1,200.0	1,200.0	300.0	300.0
Allotted, called up and fully paid	813.8	892.6	203.5	223.2

The figures in 2003 relate to Boots Group PLC and in 2002 to The Boots Company PLC.

Shares allotted during the year	Number million	Nominal value £m	Consideration £m
Option schemes	–	–	0.1

Changes in authorised, allotted and issued ordinary share capital

On 20th January 2003 under a Scheme of Arrangement between The Boots Company PLC, the former holding company of the Group, and its shareholders under section 425 of the Companies Act 1985, and sanctioned by the High Court on 20th January 2003, all the issued shares in that company were transferred to Boots Group PLC in consideration for the allotment of one ordinary share of 25p each in Boots Group PLC for each ordinary share of 25p each in The Boots Company PLC held on the record date (17th January 2003).

The Company (Boots Group PLC) was incorporated on 31st May 2002 with the name of Halfords Group PLC, which was changed on 11th October to Boots Group PLC.

Shares were issued as follows:

- 2 ordinary shares of £1 each were issued on incorporation.
- 49,998 5% cumulative redeemable preference shares of £1 were issued at par on 10th June 2002 to Deutsche Bank AG London Branch for £49,998 against an undertaking to pay cash to the company on 31st December 2002.
- The entire issued cumulative redeemable preference share capital was subsequently redeemed at par on 21st June 2002.

At an Extraordinary General Meeting of the company held on 31st October 2002, further changes to the share capital of the company were made as follows:

- each of the 49,998 authorised but unissued ordinary shares of £1 each and the 2 issued ordinary shares of £1 each was sub-divided into 4 ordinary shares of 25 pence each;
- each of the 50,000 authorised but unissued redeemable preference shares of £1 each was redesignated as an ordinary share of £1 each and each such ordinary share was sub-divided into 4 ordinary shares of 25 pence each;
- the authorised share capital of the company was increased from £100,000 to £300m by the creation of a further 1,199,600,000 ordinary shares of 25 pence each.

On 20th January 2003 a further 836,022,389 ordinary shares of 25 pence were issued under a Court approved scheme of arrangement, made pursuant to section 425 of the Companies Act, whereby the company was interposed as the new holding company of the Boots Group. As required by s131 of the Companies Act (Merger Relief), no share premium was recognised.

Share repurchase

During the year to 31st March 2003 78.8m ordinary shares were purchased and subsequently cancelled at prices ranging from 520p per share to 686p per share, with an average of 587p per share. The total cost of the purchases was £462.8m, which has been charged against distributable reserves. 1.3m of the repurchased shares were not cancelled until after the year end but the cancellation has been reflected in the allotted, called up and fully paid numbers above.

Share options

Under a savings-related scheme, options have been granted enabling employees to subscribe for ordinary shares at approximately 80% of market price. In 1999 a QUEST 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). At 31st March 2003, options exercisable from 2003 to 2007 at between 410p and 808p per share were outstanding in respect of 4.4m shares.

Under an executive share option scheme, certain senior executives have been granted options to subscribe for ordinary shares after a period of three years from date of grant as long as performance targets are met. At 31st March 2003, options exercisable from 2003 to 2015 at between 438p and 635p per share were outstanding in respect of 4.0m shares.

23 Reconciliation of operating profit to operating cash flows	2003 £m	2002 £m
Group operating profit	557.3	630.0
Operating exceptional items	–	16.4
Group operating profit before exceptional items	557.3	646.4
Depreciation, amortisation and impairments of fixed assets	162.8	163.4
Loss on disposal of fixed assets	5.5	5.6
Increase in stocks	(77.1)	(3.3)
Increase in debtors, including pension prepayments	(27.0)	(126.1)
(Decrease)/increase in creditors	(28.7)	65.5
Other non-cash movements	(2.4)	0.2
Net cash inflow before expenditure relating to exceptional items	590.4	751.7
Exceptional operating cash flows (see below)	(8.1)	(29.3)
Cash inflow from operating activities	582.3	722.4

	2003 £m	2002 £m
Exceptional operating cash flows:		
Restructuring and integration costs paid	(8.1)	(29.3)
	(8.1)	(29.3)

24 Analysis of net debt	As at 1st April 2002 £m	Cash flow £m	Other non-cash changes £m	Currency £m	As at 31st March 2003 £m
Cash at bank and in hand	100.4	98.6	–	4.4	203.4
Bank loans and overdrafts repayable on demand	(111.2)	(38.3)	–	(0.2)	(149.7)
Net (overdraft)/cash	(10.8)	60.3	–	4.2	53.7
Liquid resources	308.7	(15.8)	–	0.2	293.1
Obligations under finance leases	(18.1)	8.1	(1.8)	–	(11.8)
Other borrowings (including currency swaps)	(426.1)	37.9	1.7	–	(386.5)
Total	(146.3)	90.5	(0.1)	4.4	(51.5)

Liquid resources comprise listed investments and short term 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 2003 £m	Group 2002 £m
Contracts placed	13.1	35.1

(ii) Annual commitments under operating leases are as follows:

	Group Land and buildings £m	Group Other £m
Expiring:		
Within one year	13.8	0.8
Over one year and less than five years	18.5	2.6
Over five years	131.9	19.4
At 31st March 2003	164.2	22.8
Expiring:		
Within one year	6.9	0.6
Over one year and less than five years	24.9	3.0
Over five years	176.3	0.1
At 31st March 2002	208.1	3.7

(iii) Other financial commitments

On 1st November 2002 Boots entered into a contractual arrangement with Xansa Plc to provide IT application support and development services over a seven-year period. This arrangement includes a guaranteed minimum payment from Boots to Xansa of £48m, a proportion of which relates to capital expenditure which is not included in (i) above.

(iv) 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. The substance of a settlement by Knoll of consumer actions and claims of insurers and state attorneys general in the United States has been approved, and a settlement of most of the actions in Canada has been approved. The company asserts that the relevant courts in North America have no jurisdiction over it in these cases and this has been approved 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.

Boots Pension Scheme

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 2001. The UK pension charge for the year has been determined under SSAP24 using the projected unit method and the results under SSAP24 were as follows:

Scheme assets and liabilities as at latest valuation date – 1st April 2001		UK
Market value of assets		£2,274m
Value of accrued liabilities		£1,960m
Funding level		116%

The key assumptions used in determining the accounting costs for the scheme are given below. The financial assumptions were derived from market yields on bonds at the valuation date.

%pa	UK 2001 Valuation
Pension increases	2.4%
General long-term pay increases	3.8%
Investment return	6.0%

The pension charge for the year for Boots Pension Scheme was £31m (2002 £5m). This comprises the regular cost of pensions, offset by amortisation of the surpluses and deficits disclosed by previous valuations over periods up to 13 years. The company contributed £55m (including £5m of pension augmentations) in the year to the Boots Pension Scheme (the main scheme sponsored by the company). A pension prepayment of £150m (2002 £139m) is included within other debtors. These prepayments include £61m paid in advance.

Other pension arrangements

In common with other companies, additional defined benefit pension arrangements exist for certain senior executives in the UK. Since 1st October 2000, new UK employees have been offered membership of Boots Stakeholder Pension Plan, a defined contribution pension arrangement. After five years' membership of this plan, employees have the opportunity to join Boots Pension Scheme. The cost of these arrangements was £2m (2002 £3m).

Total pension cost

The overall pension charge for the year (excluding pension augmentations) comprises:

	2003 £m	2002 £m
Boots Pension Scheme	31	5
Other UK pension arrangements	2	3
Overseas arrangements	3	2

FRS17

Whilst the financial statements for the year ended 31st March 2003 continue to include a pension charge and pension prepayment calculated under the principles of SSAP24 the new standard requires certain additional disclosures. These are noted on the next page. The actuarial valuations with respect to UK schemes have been based on the most recent formal valuations (as noted above) and updated by the Scheme Actuary to 31st March 2003. The figures for overseas schemes are not material and have not been included.

26 Pensions continued

FRS17 'Retirement Benefits' will change fundamentally the calculation and reporting of the cost of retirement benefits. The disclosures below relate to UK schemes.

The principal assumptions used by the independent qualified actuaries in updating the latest valuations of each of the schemes for FRS17 purposes were:

% pa	31 March 2003	31 March 2002
Inflation	2.6%	2.8%
Rate of general long-term increase in salaries	4.1%	4.3%
Rate of increase to pensions in payment	2.5%	2.7%
Discount rate for scheme liabilities	5.5%	6.1%

The market value of the assets in the UK schemes, the present value of liabilities and the resulting surplus together with the expected rates of return on the assets were as follows:

	Long-term rate of return expected at 31 March 2003 % p.a.	Value at 31 March 2003 £m	Long-term rate of return expected at 31 March 2002 % p.a.	Value at 31 March 2002 £m
Bonds	4.8	2,676	5.4	2,375
Other net assets	3.5	18	4.0	17
Total market value of assets		2,694		2,392
Present value of scheme liabilities		(2,540)		(2,226)
Surplus in scheme		154		166
Related deferred tax liability		(46)		(50)
Net pension asset		108		116

Had the group adopted FRS17 the financial statements would have reflected the following amounts during the year:

For year ending 31 March 2003	£m
Amounts charged to operating profit	
Current service cost	73
Past service costs	5
Total operating charge	78
Amounts included as other finance income	
Expected return on pension scheme assets	130
Interest on pension scheme liabilities	(135)
Net return	(5)
Amounts recognised in the Statement of Total Recognised Gains and Losses (STRGL)	
Actual return in excess of expected return on pension scheme assets	198
Experience gains arising on the scheme liabilities	23
Changes in assumptions underlying the present value of the scheme liabilities	(208)
Actuarial gain recognised in STRGL	13

26 Pensions continued**Analysis of movement in surplus during the year**

For year ended 31st March 2003

	£m
Surplus in scheme at beginning of the year	166
Current service cost	(73)
Contributions	58
Past service costs	(5)
Other finance income	(5)
Actuarial gain	13
Surplus in scheme at end of the year	154

History of experience gains and losses

For year ended 31st March 2003

	2003
Difference between expected and actual return on scheme assets:	
– Amount (£m)	198
– Percentage of scheme assets (%)	7.3
Experience gains (losses) on scheme liabilities:	
– Amount (£m)	23
– Percentage of the present value of the scheme liabilities (%)	0.9
Total amount recognised in STRGL:	
– Amount (£m)	13
– Percentage of the present value of the scheme liabilities (%)	0.5

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at 31st March would be as follows:

Group net assets and reserves reconciliation

	2003 £m	2002 £m
Net assets as reported	2,000	2,018
Benefit of including net pension asset (UK schemes)	108	116
Less SSAP24 pension prepayment net of deferred tax	(62)	(59)
Net assets restated for FRS17	2,046	2,075
Profit and loss account reserve as reported	1,219	1,244
Benefit of including net pension asset (UK schemes)	108	116
Less SSAP24 pension prepayment net of deferred tax	(62)	(59)
Profit and loss account reserve restated for FRS17	1,265	1,301

27 Staff numbers and costs

The average number of persons employed by the group:

	2003 Number of heads	2003 Full time equivalents	2002 Number of heads	2002 Full time equivalents
Continuing operations				
Boots The Chemists	60,722	39,260	58,945	37,736
Wellbeing Services	5,842	4,601	5,409	4,574
	66,564	43,861	64,354	42,310
Boots Healthcare International	3,214	3,089	2,966	2,868
Boots Retail International	1,062	1,020	1,084	1,036
Group and other	652	580	497	445
Continuing operations	71,492	48,550	68,901	46,659
Discontinued operations – Halfords	3,868	2,361	9,805	5,996
Total	75,360	50,911	78,706	52,655

Total number of persons employed by continuing operations at 31st March 2003 was 68,740 heads, 47,050 full time equivalents (2002 68,024 heads, 47,065 full time equivalents).

The aggregate payroll cost was as follows:	2003 £m	2002 £m
Wages and salaries	919.8	914.2
Social security costs	61.6	64.9
Other pension costs	36.2	10.1
	1,017.6	989.2

28 Remuneration of directors and directors' shareholdings

Details of the remuneration, long term incentive plan interests, shareholdings, share options and pension entitlements of the directors are included in the directors' remuneration report on pages 21 to 28.

29 Related party disclosures

During the year the group had no material transactions with related parties other than £1.9m of additional funding to handbag.com limited a joint venture in which the group has a 50% interest in the share capital.

For details of investment in joint ventures see note 12.