



THE BOOTS COMPANY

Registration
Number
928555

BOOTS THE CHEMISTS LIMITED

DIRECTORS' REPORT

and

FINANCIAL STATEMENTS

YEAR ENDED 31ST MARCH 1998



BOOTS THE CHEMISTS LIMITED

Board of Directors

Year ended 31st March 1998

Directors:

S G Russell (Chairman and Managing Director)

C A Baldwin

M W Bryant

P L M Davies

P Joyce

P G Matthews

D A Stead

Secretary:

Sonia Fennell

Registered Office:

Nottingham, NG2 3AA.

Registration
No: 928555

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 1998

The directors present their annual report together with the audited financial statements for the year ended 31st March 1998.

Principal activities

The company's principal activities during the year were dispensing and retail chemists.

Review of the business

Boots The Chemists (BTC) continued to drive sales in difficult trading conditions. Significant factors included a major fire at one of BTC's central warehouses in Nottingham, a poor summer which affected sun care sales and a mild winter with relatively low incidence of coughs and colds. Despite these factors turnover grew 7.9 per cent, with counter sales up 7.5 per cent and dispensing up 9 per cent. Sales growth accelerated through the year, boosted by the increasing success of the Advantage Card. The Advantage Cards revenue costs of £20 million reduced operating profit by 0.6 per cent to £294.7 million.

Strategy BTC is creating value by concentrating on four strategic goals. It is differentiating its offer to consumers by focusing on beauty and healthcare, positioning Boots as the store that helps customers to 'look good, feel good'. It has embarked on a process of fundamental change to improve its way of working. It is continuing to expand its store portfolio, in a variety of formats, in the UK and The Republic of Ireland. It is also developing profitable new products and activities in areas where the Boots brand adds value.

People To achieve these objectives, BTC has one overriding aim, to get all its people thinking and working more effectively. It is undertaking a far-reaching reorganisation of marketing, stores and central functions, redesigning the way people work. This programme brings together business process engineering, new IT systems and the development of a more participative culture. It will make the organisation more effective, efficient and more responsive to customers' aspirations. Central functions such as personnel, marketing and finance have been devolved. Profit accountability has been driven deeper down the organisation so that individuals can apply their energy and imagination more directly to creating value, guided by the overall strategic objectives.

The aftermath of the warehouse fire in October demonstrated the success of this approach. Even before the fire was finally out, a team had begun to make alternative logistics arrangements and plan the rebuilding. What remained of the 250,000 sq ft building had to be demolished but, thanks to a remarkable effort by many individuals, the first phase of its replacement was in operation by June, less than nine months after the fire.

Store development The small store expansion programme continued, with 32 more stores opened in 1997/98. BTC's growth is increasingly through more edge of town stores - 13 opened during the year, taking the total to 21. They are proving enormously successful. They generate their own traffic, taking little trade from other BTC stores, and transaction values are typically 50 per cent higher than in the high street stores which remain the core of the chain.

Rapid expansion in The Republic of Ireland has made Boots the country's largest retail pharmacy chain. BTC opened six stores in The Republic during the year, bringing the total to eight. In January 1998 it acquired the Hayes Conyngham & Robinson chemists chain, adding a further 15. Refurbishment of these stores is under way.

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 1998

Review of the business (continued)

In April 1998 BTC acquired the Connors pharmacy chain, which has 25 stores in Northern Ireland, five in The Republic of Ireland, three in England and one in Wales. This acquisition gives Boots market leadership in Northern Ireland and strengthens its leadership in The Republic.

Experiments with new formats and layouts continue, with stores of various sizes designated as 'learning laboratories'. A motorway service area store has proved successful and five more are planned in 1998. Stores in hospitals are still under trial.

Advantage Card BTC's loyalty card, the Advantage Card, was launched nationally in September 1997 after extensive trials. One in three BTC transactions are now linked to the Advantage Card. As expected, by the year end incremental counter sales of an estimated 3.5 per cent had been achieved. Promotions offering bonus card points have been very successful. The card provides valuable insights into consumer behaviour which are already guiding the tactical use of promotions. The next step is to build sales by making use of the card database and its smartcard chip technology.

New products and services Using information from the Advantage Card database, BTC launched Boots Mother & Baby at Home, a home shopping catalogue. The first 500,000 catalogues, mailed in March 1998, contain over 1,500 products ranging from baby food to nurserywear. The catalogue enables BTC to extend its range to items such as maternity wear and baby equipment.

New product development is a key driver of health and beauty sales, major launches in beauty and personal care included the Kyusu toiletries range and the ACT skincare range for teenagers. The relaunch of Boots sandwiches and new chiller cabinets helped to boost lunchtime sales by 25.7 per cent.

BTC is strengthening its market leadership in photo processing through a £27.5 million investment in Advanced Photo System (APS) processing equipment. All 470 in-store mini-labs will be equipped with the machines by early 1999, enabling Boots to offer Europe's first national one-hour APS service.

Pharmacy Pharmacy sales grew 9 per cent and Boots maintained market share. New own brand pharmacy products, giving BTC higher margins brought the total range to 120 frequently prescribed items.

A promising innovation under trial in the 'learning laboratory' stores is a redesigned pharmacy layout suitable for almost all BTC stores, whatever their size. It enables 80 per cent of prescriptions to be dispensed within two minutes - a key benefit for customers - and provides a consultation area where customers can discuss health concerns with the pharmacist in privacy.

Beauty and personal care Overall sales grew 8 per cent, with a significant gain in market share for cosmetics, but fragrances suffered from intensifying competition. The Advantage Card and stronger promotion boosted haircare, dental care and, particularly, skincare. Relaunches included Natural Collection toiletries, targeted more clearly at young teenage girls and the £45 million a year 17 cosmetics range, one of BTC's largest brands.

Healthcare Sales were buoyant, growing 7.9 per cent despite the low incidence of hayfever in the summer and coughs and colds in the winter. Smoking cessation products grew strongly, while vitamins and supplements suffered from the mild winter and adverse publicity for B6 products.

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 1998

Review of the business (continued)

Other merchandise areas It was an excellent year for BTC's photo business, which strengthened its market leadership in photo processing, benefiting from its growing dominance in APS. In cameras, APS accounted for 42 per cent of sales. The new Boots brand camera range proved highly successful.

Outlook BTC continues to broaden its offer to customers. In April this year it launched an initial range of nine health and travel insurance products that can be bought 'off the shelf' in 250 of its largest stores. Royal & Sun Alliance carries the insurance risk and provides underwriting and claims services.

Other initiatives include trials of GP surgeries in selected Boots high street stores, operated by an independent healthcare services provider.

The new head office extension opens in January 1999, bring together people for team-based, cross-functional working.

Profit, dividends and retentions

Details of profit, dividends and retentions are shown in the profit and loss account on page 7.

Fixed assets

The company's leasehold properties were valued by the directors, in conjunction with the group's own professionally qualified staff, at 31st March 1993. The valuation, which was on an open market basis for existing use, was incorporated in the financial statements of that year. The directors are of the opinion that the market value of the company's properties at 31st March 1998 was not materially different from that given in the financial statements.

Staff

The company continues to involve staff in the decision-making process and communicates regularly with staff during the year. Staff involvement in the company's performance is encouraged through employee bonus and share schemes and this involvement extends to the board of Boots Pensions Ltd, on which there are employee representatives. 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.

Further information is shown in note 17 on page 21.

BOOTS THE CHEMISTS LIMITED

Directors' Report

Year ended 31st March 1998

Directors

The details of directors serving as at 31st March 1998 are shown on page 1. There have been the following changes to the board of directors during the year and up to the date of signing the financial statements:-

Appointments

Date

M W Bryant

1st June 1997

A D Emson

10th April 1998

D A Stead

1st October 1997

Resignations

Date

P L M Davies

5th May 1998


R M Scribbins

1st August 1997

Remuneration of directors and directors' shareholding

Details of the remuneration and shareholdings of the directors are included in notes 18 and 19 on pages 21 to 23.

By order of the board


S Fennell
Secretary

20/7/98
Date

BOOTS THE CHEMISTS LIMITED

Year ended 31st March 1998

Directors' responsibilities statement

The directors are required by the Companies Act 1985 to prepare financial statements which give a true and fair view of the profit or loss for the financial year and of the state of the company's affairs 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 has suitable internal controls for maintaining adequate accounting records, for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.

Auditors' report

Report of the Auditors to the members of Boots The Chemists Limited.

We have audited the financial statements on pages 7 to 24.

Respective responsibilities of directors and auditors

As described above, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

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 company'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 the affairs of the company as at 31st March 1998 and of its profit 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

20 July 1998
Date

BOOTS THE CHEMISTS LIMITED**Profit and Loss Account**

Year ended 31st March 1998

	Notes	1998 £m	1997 £m
Turnover	2	3,569.7	3,312.4
Cost of sales		(2,374.7)	(2,204.9)
Gross profit		1,195.0	1,107.5
Operating costs	3	(900.3)	(811.0)
Operating profit		294.7	296.5
Income from shares in subsidiary undertakings		0.1	0.1
Profit on ordinary activities before interest		294.8	296.6
Net interest	4	17.1	15.3
Profit on ordinary activities before taxation		311.9	311.9
Tax on profit on ordinary activities	5	(101.0)	(103.3)
Profit on ordinary activities after taxation and profit for the financial year		210.9	208.6
Dividends	6	(712.0)	(216.0)
Loss retained		(501.1)	(7.4)

The results for both periods are wholly attributable to the continuing operations of the company. In addition, Boots The Chemists acquired a number of pharmacy businesses during the year. The impact of these acquisitions on the company's operating profit is not material. There have been no recognised gains or losses other than the profit for the financial year as stated above.

There is no material difference between the profit as stated above and the profit stated on an unmodified historical cost basis.

BOOTS THE CHEMISTS LIMITED
Reconciliation of Movements in Shareholders' Funds
Year ended 31st March 1998

	1998 £m	1997 £m
Total recognised gains and losses for the year	210.9	208.6
Dividends	(712.0)	(216.0)
New share capital issued (net of expenses)	700.0	-
Goodwill purchased	(9.9)	(9.1)
Net increase /(decrease) in shareholders' funds	189.0	(16.5)
Opening shareholders' funds	521.2	537.7
Closing shareholders' funds	710.2	521.2

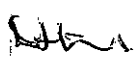
BOOTS THE CHEMISTS LIMITED

Balance Sheet

31st March 1998

	Notes	1998 £m	1997 £m
Fixed assets			
Tangible assets	7	387.1	337.9
Investments	8	199.6	207.3
		586.7	545.2
Current assets			
Stocks	9	292.5	238.0
Debtors falling due within one year	10	147.6	131.0
Debtors falling due after more than one year	10	755.4	484.9
Cash at bank and in hand		1,069.1	4.2
		2,264.6	858.1
Creditors: Amounts falling due within one year	11	(2,106.1)	(855.7)
Net current assets		158.5	2.4
Total assets less current liabilities		745.2	547.6
Creditors: Amounts falling due after more than one year	12	(35.0)	(26.4)
Provisions for liabilities and charges	13	-	-
Net assets		710.2	521.2
Capital and reserves			
Called up share capital	14, 15	709.7	9.7
Profit and loss account	15	0.5	511.5
Equity shareholders' funds		710.2	521.2

The financial statements were approved by the Board of Directors on 20th July 1998 and are signed on its behalf by:



Director

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1998

1. Accounting policies

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

Cash flow

A cash flow statement has not been presented in the financial statements of the company as permitted by paragraph 5a of the revised Financial Reporting Standard 1.

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 of the Companies Act 1985, being prepared under the historical cost convention adjusted by revaluations of certain properties.

Foreign currencies

Overseas investments are stated at the rate of exchange in force at the date the investment was made. Assets and liabilities in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Profits and losses arising from changes in exchange rates in the normal course of trading are taken to the profit and loss account.

Fixed assets and depreciation

No depreciation is provided on shop long leaseholds with more than fifty years to run, nor on assets in the course of construction. In the opinion of the directors, shop properties are maintained to such a high 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 permanent diminution in the value of such properties is charged to the profit and loss account. Other tangible fixed assets are written off by equal instalments over their expected useful lives as follows:

Computer equipment	3 to 8 years
Motor cars	4 or 5 years
Fixtures and plant	5 to 20 years
Short leasehold properties	Remaining period of lease when less than 50 years

Stock

Stock is valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods and costs related to distribution.

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1998

1. Accounting policies (continued)

Pension funding

The holding 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 company. 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 acquired under operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

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 tax

A deferred tax 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.

Goodwill

Goodwill on acquisitions, being the excess of the cost of investment in subsidiary undertaking over the fair value of net assets acquired, is set off against reserves. On disposal of a business, any goodwill previously set off against reserves is charged in the calculation of the profit or loss on disposal.

2. Turnover

Turnover comprises retail sales to external customers (excluding value added tax and other sales taxes).

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1998

3. Operating costs	1998 £m	1997 £m
Selling, distribution and branch costs	783.8	714.9
Administrative expenses	116.5	96.1
Operating costs	900.3	811.0

Operating profit shown on page 7 is after charging:

Operating lease rentals		
- Property rents	142.3	126.9
- Computer and plant hire	2.0	1.7
Depreciation of tangible fixed assets	47.6	43.3
Remuneration of auditors - Audit fees	0.1	0.1
Provision against investments in subsidiary undertakings	9.7	0.6
Provision against loans with subsidiary undertakings	5.5	-
Loss on liquidation of subsidiary undertaking	1.1	-

4. Net interest	1998 £m	1997 £m
Interest receivable:		
Bank interest	17.4	22.5
From group company	4.7	2.3
Other interest	0.1	0.3
	22.2	25.1
Interest payable and similar charges:		
Bank loans and overdrafts wholly repayable within 5 years	(5.1)	(9.8)
	17.1	15.3

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1998

5. Tax on profit on ordinary activities	1998 £m	1997 £m
The charge on the profit for the year consists of:		
UK corporation tax	100.8	105.5
Adjustment in respect of prior years	(0.1)	(0.1)
Deferred tax - other timing differences	0.3	(2.1)
	<u>101.0</u>	<u>103.3</u>
 Unprovided deferred taxation in respect of the year		
Accelerated capital allowances	1.0	0.9
Other timing differences	(0.2)	(0.1)
	<u>0.8</u>	<u>0.8</u>
 6. Dividends		
	1998 £m	1997 £m
Final paid	712.0	216.0
	<u>712.0</u>	<u>216.0</u>

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1998

7. Tangible fixed assets

	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 1997	7.9	19.1	656.6	8.0	691.6
Additions	6.1	2.8	73.4	18.0	100.3
Disposals	0.4	(2.2)	(17.1)	-	(18.9)
Reclassifications and transfers	-	0.3	3.5	(4.1)	(0.3)
At 31st March 1998	14.4	20.0	716.4	21.9	772.7
Gross book value of depreciable assets	14.4	20.0	716.4	21.9	772.7
Depreciation					
At 1st April 1997	3.4	9.8	340.5	-	353.7
Charge for the period	0.4	2.2	45.0	-	47.6
Disposals	(0.1)	(1.6)	(13.5)	-	(15.2)
Transfers	-	-	(0.5)	-	(0.5)
At 31st March 1998	3.7	10.4	371.5	-	385.6
Net book value at 1st April 1997	4.5	9.3	316.1	8.0	337.9
Net book value at 31st March 1998	10.7	9.6	344.9	21.9	387.1

Tangible fixed assets	1998 £m	1997 £m
Net book value of land and buildings comprises:		
Long leasehold (more than 50 years unexpired)	0.1	0.1
Short leasehold	10.6	4.4
	10.7	4.5

The cost of tangible fixed assets includes £5,719,907 (1997 £3,702,034) in respect of assets held under finance leases on which accumulated depreciation at the end of the year was £1,490,037 (1997 £519,468) and for which the depreciation charge for the year was £988,723 (1997 £399,588).

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1998

8. Fixed asset investments	Shares in subsidiary undertakings £m	Shares in fellow subsidiary undertakings £m	Loans to fellow subsidiary undertakings £m	Total £m
Cost				
At 1st April 1997	3.4	100.0	106.7	210.1
Additions	12.1	-	0.1	12.2
Disposals/repayments	(1.1)	-	(3.6)	(4.7)
At 31st March 1998	14.4	100.0	103.2	217.6
Provision				
At 1st April 1997	2.8	-	-	2.8
Movement	9.7	-	5.5	15.2
At 31st March 1998	12.5	-	5.5	18.0
Net book value at 1st April 1997	0.6	100.0	106.7	207.3
Net book value at 31st March 1998	1.9	100.0	97.7	199.6

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1998

8. Fixed asset investments
(continued)

	Incorporated in	Ordinary shares percentage owned %	Principal activities	Last financial year ended
Boots Stores Ltd	Great Britain*	100	Management	31st March 1998
Stearn Bros Ltd	Great Britain*	100	Inactive	31st March 1998
Hammond and Hammond Ltd	Great Britain*	100	Inactive	31st March 1998
Albionflag Ltd	Great Britain*	100	Inactive	31st March 1998
Seawade Ltd	Great Britain*	100	Inactive	31st March 1998
N G Hayter Ltd	Great Britain*	100	Inactive	31st March 1998
SCM Ltd	Great Britain*	100	Holding company	31st March 1998
Metcalfe - Proud Ltd	Great Britain*	100	Dispensing Chemist	31st March 1998

*Registered in England and Wales

On 20th January 1998, Boots The Chemists acquired SCM Ltd, which is the holding company of the Hayes Conyngham & Robinson Chemists chain in The Republic of Ireland for a consideration of £11.3m. The goodwill arising in the accounts of the ultimate holding company was £10.3m.

Metcalfe - Proud Ltd was acquired in the year. The consideration paid was £0.4m and the goodwill arising in the accounts of the ultimate holding company was £0.2m.

The investment in fellow subsidiary undertakings at 31st March 1998 is as follows:-

	Incorporated in	Preference shares percentage owned %	Principal activities	Last financial year ended
Boots Investments Ltd	Jersey	100	Investments	31st March 1998

In the opinion of the directors the value of the company's investment in subsidiary and fellow subsidiary undertakings is not less than the amount shown on page 15.

Group financial statements have not been prepared as permitted by section 228 (2) of the Companies Act 1985.

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1998

9. Stocks	1998 £m	1997 £m
Finished goods and goods for resale	<u>292.5</u>	<u>238.0</u>

10. Debtors	1998 £m	1997 £m
Falling due within one year:		
Trade debtors	118.8	107.2
Amounts owed by group undertakings	1.0	0.6
Deferred taxation asset (see note 13)	1.8	2.1
Other debtors	1.7	1.4
Prepayments and accrued income	26.1	21.8
	<u>147.6</u>	<u>131.0</u>

Falling due after more than one year:

Amounts owed by group undertakings	753.1	482.2
Deferred taxation asset (see note 13)	1.8	2.1
Other debtors	0.5	0.6
	<u>755.4</u>	<u>484.9</u>
	<u>903.0</u>	<u>615.9</u>

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1998

11. Creditors: Amounts falling due within one year	1998 £m	1997 £m
Debenture loans	3.3	-
Bank overdraft	103.2	367.2
Trade creditors	10.1	6.8
Amounts due to group undertakings	1,844.6	271.0
Corporation tax	41.3	52.3
Advance corporation tax	0.1	53.9
Taxation and social security	33.0	31.0
Other creditors	49.9	47.2
Accruals and deferred income	19.5	25.8
Finance lease creditor	1.1	0.5
	2,106.1	855.7

12. Creditors: Amounts falling due after more than one year	1998 £m	1997 £m
Debenture loans	7.8	-
Amounts due to group undertakings	16.0	17.3
Accruals and deferred income	8.9	7.4
Finance leases	2.3	1.7
	35.0	26.4

The amounts owed to group undertakings are not interest bearing and no specific repayment terms exist.

Obligations under finance leases	1998 £m	1997 £m
Within one year	1.1	0.5
Within one to two years	1.3	0.8
Within two to five years	1.0	0.9
	3.4	2.2

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1998

13. Provisions for liabilities and charges/(deferred tax asset)	Deferred taxation recoverable £m	
At 1st April 1997 (included within debtors - see note 10.)	(2.1)	
Profit and loss account	0.3	
At 31st March 1998	(1.8)	
Transferred to debtors (see note 10.)	1.8	
	-	
	1998	1997
	£m	£m

Analysis of deferred tax liability:

Other timing differences	(1.8)	(2.1)
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Unprovided deferred taxation:

Accelerated capital allowances	37.2	36.2
Other timing differences	-	0.2
	37.2	36.4

There is a potential deferred tax asset of £2.8m (1997: £3.1m) in respect of capital losses in the company (stated net of rolled-over gains).

14. Called up share capital	1998 £m	1997 £m
Ordinary shares of £1 each:		
Authorised	709.7	9.7
Allotted, called up and fully paid	709.7	9.7

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1998

15. Share capital and reserves

	Called up share capital	Profit and loss account £m	Total £m
At 1st April 1997	9.7	511.5	521.2
Loss retained	-	(501.1)	(501.1)
Goodwill	-	(9.9)	(9.9)
Issue of shares	700.0	-	700.0
At 31st March 1998	<u>709.7</u>	<u>0.5</u>	<u>710.2</u>

Goodwill set off against reserves arose on the acquisition of 42 pharmacy businesses during the year.

Further share capital was issued during the year to provide additional funding for the business.

16. Commitments

a) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:	1998 £m	1997 £m
Contracts placed	<u>105.8</u>	<u>29.2</u>
b) Annual commitments under operating leases at 31st March 1998 are as follows:	Land and buildings £m	Other assets £m
Expiring:		
Within one year	1.1	0.1
Over one year and less than five years	9.0	1.2
Over five years	134.3	-
	<u>144.4</u>	<u>1.3</u>

BOOTS THE CHEMISTS LIMITED
Notes to the Financial Statements
Year ended 31st March 1998

17. Staff numbers and costs

	1998	1997
The average number of persons employed by the company during the year was:	52,499	49,598
	1998 £m	1997 £m
The aggregated payroll cost was as follows:		
Wages and salaries	413.0	379.9
Social security costs	25.5	23.5
Other pension costs	2.2	2.0
	440.7	405.4

18. Directors' remuneration

	1998 £m	1997 £m
i) Directors' emoluments for services to the company	0.8	0.9
ii) Monies received from long term bonus schemes	0.2	0.2
iii) (a) The remuneration of the highest paid director, excluding pension contributions	0.2	0.3
(b) (i) Increase in accrued pension during the year, including inflation	-	-
(ii) Accumulated total accrued pension at year end	-	0.1

The highest paid director has not received and exercised any share options during the year.

	1998	1997
iv) Number of directors who are members of defined benefit pension schemes	7	7
v) Number of directors who have exercised options during the year (who are not directors of the ultimate holding company)	3	3

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19. Directors' shareholdings and share options

The beneficial interests of the directors, who are not directors of the ultimate holding company, and their families in the share capital of the ultimate holding company at 31st March 1998 are shown below. No director holds any loan capital in the ultimate holding company.

Ordinary shares under executive and SAYE options									
	Ordinary	Ordinary	Ordinary	Average	Exercise	Market		Ordinary	
	shares	shares	shares under	exercise	during	Exercise	price at	Granted	shares under
	1998	1997	options	price	the year	price	date of	during	options
			1998	1998			exercise	the year	1997
C A Baldwin	88	87	-	-	-	-	-	-	-
M W Bryant	24,124	22,246	12,524	500p	1,878	386p	894p	-	14,402*
P L M Davies	17,476	17,476	4,726	399p	70,000	344p	871p	-	74,726
P Joyce	15,700	18,990	37,500	416p	2,130	352p	900p	-	39,630
P G Matthews	3,769	3,629	33,556	505p	-	-	-	-	33,556
D A Stead	400	400	9,992	420p	-	-	-	-	9,992*

*At the date of appointment

The market price of the ultimate holding company's shares at 31st March 1998 was 957p. The range of market prices during the year was 676p to 963p. No options lapsed during the year. Prices shown for options exercised during the year represent the weighted average of prices. The average exercise price for 1998 represents the weighted average price for options outstanding at 31st March 1998.

Under a savings related scheme options may be granted to qualifying employees to subscribe for ordinary shares at approximately 80% of market price.

In previous years certain directors were granted options to subscribe for ordinary shares in The Boots Company PLC under an executive share option scheme. Such options are exercisable up to November 2004 at option prices ranging from 399p to 531p.

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19 Directors' shareholdings (continued)

The table below shows the number of shares in The Boots Company PLC (the ultimate holding company) over which certain directors have been granted conditional rights under the Long Term Bonus Scheme operated by The Boots Company PLC. At the end of a four year performance cycle, half the bonus earned is paid in cash and half is converted into an equivalent number of shares. The individual will normally become entitled to receive those shares only after remaining employed for a further three years.

	Conditional entitlement award under the Long Term Bonus Scheme			
	31st March 1998	Exercised during the year	Lapsed during the year	Granted during the year
M W Bryant	4,361	-	-	4,361
P L M Davies	3,333	-	-	3,333
P Joyce	4,028	-	-	4,028
P G Matthews	4,248	-	-	4,248

As a beneficiary of The Boots ESOP Trust, each participant in the scheme is deemed technically to be interested in 520,593 ordinary shares held by Morgan Grenfell Nominees (Jersey) Limited on behalf of the Trust.

20. Pensions

The majority of the employees of the company are members of Boots Pension Scheme. This is a defined benefit scheme, the cost for which is determined by Bacon & Woodrow, consulting actuaries.

Details of the most recent actuarial valuation as at 1 April 1995 can be found in the financial statements of The Boots Company PLC.

21. Contingent liability

The company has given its bankers the right to set off credit balances on its current accounts against amounts owed by its parent and fellow UK subsidiaries. At 31st March 1998 the contingent liability was £1,063.5m (1997: £Nil).

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22. Ultimate Holding Company

The company's immediate and ultimate holding company (which is also the ultimate controlling party) is The Boots Company PLC, a company incorporated in Great Britain and registered in England and Wales. The results of the company are included in the group financial statements of The Boots Company PLC.

Copies of the group financial statements may be obtained from 1 Thane Road West, Nottingham NG2 3AA.

The company is exempt from disclosing transactions with other group undertakings and investees of the group qualifying as related parties as permitted by paragraph 3 of the Financial Reporting Standard 8.