

group profit and loss account

For the year ended 31st March 2005			Restated ¹ 2004 £m
	Notes	2005 £m	
Turnover			
Turnover from continuing operations		5,441.9	5,286.4
Discontinued operations		28.8	40.0
Turnover: group and share of joint venture	1	5,470.7	5,326.4
Less: share of joint venture's turnover ²		(1.6)	(1.4)
Group turnover		5,469.1	5,325.0
Operating profit			
Operating profit from continuing operations		508.2	570.1
Discontinued operations		(6.5)	(20.0)
Group operating profit		501.7	550.1
Share of operating loss of joint venture ²		(0.6)	(1.1)
Total operating profit including share of joint venture	2	501.1	549.0
Profit on disposal of fixed assets	3	3.0	32.5
Provision for loss on closure of operations³	3	(5.4)	3.9
Loss on disposal of business³	3	(51.3)	–
Profit on ordinary activities before interest and taxation	1	447.4	585.4
Net interest payable and similar items	5	(19.8)	(5.5)
Profit on ordinary activities before taxation		427.6	579.9
Tax on profit on ordinary activities	6	(124.7)	(167.7)
Profit on ordinary activities after taxation		302.9	412.2
Equity minority interests		(0.5)	(0.7)
Profit for the financial year attributable to shareholders		302.4	411.5
Dividends paid and proposed	8	(216.6)	(226.3)
Retained profit for the financial year	21	85.8	185.2
Basic earnings per share	9	40.9p	52.8p
Basic earnings per share before exceptionals	9	45.7p	48.0p
Diluted earnings per share	9	40.8p	52.6p
Diluted earnings per share before exceptionals	9	45.7p	47.9p

¹Restated on adoption of FRS20 'Share-based payment' and UITF38 'Accounting for ESOP trusts' (see note 21).

²Relates to Handbag a discontinued operation.

³Discontinued operations (see note 3).

other primary statements of the group

statement of total recognised gains and losses

For the year ended 31st March 2005			Restated ¹ 2004 £m
	2005 £m		
Profit for the financial year attributable to shareholders	302.4		411.5
Currency translation adjustments	1.5		(14.8)
Total recognised gains and losses for the year	303.9		396.7
Prior year adjustment in respect of adoption of FRS20 'Share-based payment' and UITF38 'Accounting for ESOP trusts' (see note 21)	38.7		
Total recognised gains and losses since last annual report	342.6		

Currency translation differences include tax of £nil (2004 £(2.2)m).

Currency translation differences are net of gains or losses on currency hedges of £(4.9)m (2004 £9.9m) and associated tax credit of £0.4m (2004 charge £2.4m).

note on historical cost profits and losses

For the year ended 31st March 2005			Restated ¹ 2004 £m
	2005 £m		
Reported profit on ordinary activities before taxation	427.6		579.9
Realisation of property revaluation surpluses	1.3		15.0
Difference between historical cost depreciation charge and actual charge for the year calculated on revalued amounts	1.0		1.1
Historical cost profit on ordinary activities before taxation	429.9		596.0
Historical cost profit retained	88.1		201.3

reconciliation of movements in equity shareholders' funds

For the year ended 31st March 2005			Restated ¹ 2004 £m
	2005 £m		
Total recognised gains and losses for the year	303.9		396.7
Dividends	(216.6)		(226.3)
New share capital issued (net of expenses)	2.0		0.3
Repurchase of shares	(300.0)		(259.9)
Charge for 'Share-based payment' share scheme awards	5.8		8.4
Disposal of own shares	7.7		2.7
Net decrease in equity shareholders' funds	(197.2)		(78.1)
Opening equity shareholders' funds ²	1,806.6		1,884.7
Closing equity shareholders' funds	1,609.4		1,806.6

¹Restated on adoption of FRS20 'Share-based payment' and UITF38 'Accounting for ESOP trusts' (see note 21).

²Originally £1,881.3m before deducting prior year adjustment of £74.7m (see note 21).

balance sheets

31st March 2005					
	Notes	Group 2005 £m	Restated ¹ Group 2004 £m	Company 2005 £m	Company 2004 £m
Fixed assets					
Intangible assets	10	283.4	281.5	–	–
Tangible assets	11	1,593.1	1,499.4	–	–
Investments	12	–	–	2,103.6	1,106.7
		1,876.5	1,780.9	2,103.6	1,106.7
Current assets					
Stocks	13	713.6	690.8	–	–
Debtors falling due within one year	14	582.4	516.0	1,721.4	1,205.3
Debtors falling due after more than one year	14	151.0	165.9	–	502.6
Current asset investments and deposits	15	19.4	239.1	–	223.0
Cash at bank and in hand		109.4	110.5	27.7	–
		1,575.8	1,722.3	1,749.1	1,930.9
Creditors: Amounts falling due within one year	16	(1,074.1)	(1,135.3)	(1,150.5)	(455.2)
Net current assets		501.7	587.0	598.6	1,475.7
Total assets less current liabilities		2,378.2	2,367.9	2,702.2	2,582.4
Creditors: Amounts falling due after more than one year	17	(588.7)	(382.9)	(541.0)	(869.6)
Provisions for liabilities and charges	20	(179.0)	(177.2)	–	–
Net assets		1,610.5	1,807.8	2,161.2	1,712.8

¹Restated on adoption of FRS20 'Share-based payment' and UITF38 'Accounting for ESOP trusts' (see note 21).

31st March 2005					
	Notes	Group 2005 £m	Restated ¹ Group 2004 £m	Company 2005 £m	Company 2004 £m
Capital and reserves					
Called up share capital	21, 23	182.6	193.9	182.6	193.9
Share premium account	21	2.3	0.3	2.3	0.3
Revaluation reserve	21	241.9	244.2	–	–
Capital redemption reserve	21	26.5	15.2	26.5	15.2
Merger reserve	21	310.8	310.8	–	–
Profit and loss account	21	845.3	1,042.2	1,949.8	1,503.4
Equity shareholders' funds		1,609.4	1,806.6	2,161.2	1,712.8
Equity minority interests		1.1	1.2	–	–
		1,610.5	1,807.8	2,161.2	1,712.8

¹Restated on adoption of FRS20 'Share-based payment' and UITF38 'Accounting for ESOP trusts' (see note 21).

The financial statements were approved by the board of directors on 18th May 2005 and are signed on its behalf by:

Richard Baker
Chief Executive

group cash flow statement

group cash flow statement

For the year ended 31st March 2005			
	Notes	2005 £m	2004 £m
Cash inflow from operating activities	24	514.7	637.8
Returns on investment and servicing of finance			
Interest paid		(34.3)	(40.4)
Interest received		14.5	17.8
Dividends paid by subsidiaries to minority interests		(0.6)	–
		(20.4)	(22.6)
Taxation		(128.8)	(166.2)
Capital expenditure and financial investment			
Purchase of fixed assets		(303.4)	(194.2)
Disposal of fixed assets		20.5	149.6
		(282.9)	(44.6)
Acquisitions and disposals	4	(9.0)	(2.2)
Equity dividends paid		(225.1)	(229.1)
Cash (outflow)/inflow before use of liquid resources and financing		(151.5)	173.1
Management of liquid resources			
Decrease in short term deposits		219.7	53.5
Financing			
Capital element of finance lease rental agreements		(5.7)	(5.9)
Increase/(decrease) in other borrowings		293.3	(11.0)
Cash inflow/(outflow) from change in borrowings and lease financing		287.6	(16.9)
Issue of ordinary share capital (net of expenses)		2.1	0.3
Repurchase of shares		(303.3)	(264.6)
Disposal of own shares		7.7	2.3
		(5.9)	(278.9)
Increase/(decrease) in cash in the year		62.3	(52.3)

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

reconciliation of net cash flow to movement in net debt

For the year ended 31st March 2005			
	Notes	2005 £m	2004 £m
Increase/(decrease) in cash in the year		62.3	(52.3)
Cash inflow from change in liquid resources	25	(219.7)	(53.5)
Cash (inflow)/outflow from change in borrowings and lease financing	25	(287.6)	16.9
Movement in net debt resulting from cash flows		(445.0)	(88.9)
Finance lease additions		(1.5)	(4.2)
Currency and other non-cash adjustments		0.9	(3.9)
Movement in net debt during the year		(445.6)	(97.0)
Opening net debt		(148.5)	(51.5)
Closing net debt	25	(594.1)	(148.5)

Net debt comprises cash, liquid resources, finance leases and all other borrowings.

accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group and company financial statements except as noted below.

Implementation of FRS20 – Share-based payment

During the year, the company has adopted FRS20, issued by the Accounting Standards Board in April 2004, and has restated comparatives accordingly. The directors believe that the fair value approach underlying FRS20 gives a more appropriate view of the impact of share-based payment transactions than the previous amortisation treatment, and so the standard has been adopted early. The effects of implementation are shown in note 21.

Implementation of UITF38 – Accounting for ESOP trusts

During the year, the company has adopted UITF38, issued by the Accounting Standards Board and requiring adoption for accounting periods ending on or after 22 June 2004. Comparatives have been restated accordingly. The effects of implementation are shown in note 21.

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of certain land and buildings.

A separate profit and loss account for the company has not been presented as permitted by section 230 (4) of the Companies Act 1985.

Consolidation

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

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Joint ventures are those undertakings, not recognised as subsidiaries, in which the group has a participating interest and are jointly controlled. The group's share of the results of joint ventures, which are accounted for under the gross equity method, are included in the profit and loss account and its share of their net assets is included in investments in the group balance sheet.

In the company balance sheet, investments in subsidiaries and joint ventures are stated at cost (being the par value of shares issued where merger relief applies) less impairments.

Foreign currencies

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

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

Where foreign currency hedges are taken out for committed future foreign currency purchases, the fair value of those hedges are not included in the profit and loss account and balance sheet. All other exchange differences are dealt with in the profit and loss account.

The cost of the company investment in shares in overseas subsidiaries is stated at the rate of exchange in force at the date each investment was made, except where hedge accounting applies in which case the year end rate is used.

Goodwill and intangible assets

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

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

> accounting policies

The cost of intangible assets acquired (which are capitalised only if separately identifiable) is not amortised except where the end of the useful economic lives of the acquired intangible asset can be reasonably foreseen. Similar assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. The carrying value of intangible assets (including in particular those being amortised over periods greater than 20 years) is reviewed annually and any impairment in value charged to the profit and loss account.

Tangible fixed assets and depreciation

Depreciation of tangible fixed assets is provided to write off the cost or valuation, less residual value, by equal instalments over their expected useful economic lives as follows:

- > Freehold land, assets in the course of construction – not depreciated
- > Freehold and long leasehold buildings, depreciated to their estimated residual values over their useful economic lives of not more than 50 years
- > Short leasehold properties – remaining period of lease when less than 50 years
- > Computer equipment including software – 3 to 8 years
- > Motor cars – 4 or 5 years
- > Other motor vehicles – 3 to 10 years
- > Fixtures and plant – 3 to 20 years

Any impairment in the value of fixed assets is recognised immediately.

The group adopted the transitional provisions of FRS15 'Tangible Fixed Assets' to retain the book value of land and buildings many of which were last revalued in 1993 and has not adopted a policy of annual revaluations for the future.

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

Share-based payment transactions

Shares in the company which have been purchased for the benefit of employees under various incentive schemes, are held in three employee share ownership trusts:

- > The qualifying employee share ownership trust (QUEST) provides for the all employee SAYE scheme
- > Shares owned by the ESOP trusts form part of the Boots Long Term Bonus Scheme for executive directors and senior employees
- > Shares owned by all the employee share ownership plan (AESOP) are conditionally gifted to all employees employed at a qualifying date and then held in trust for a qualifying service period of not less than three years

Shares are held at original cost in the own shares reserve which forms part of the overall profit and loss reserve.

Expense arising from share based payments

The fair value of the shares/options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the shares/options. The fair value is based on market value. The amount recognised as an expense reflects the estimated number of shares/options that are expected to vest except where forfeiture is only due to 'total share holder return' targets not being achieved.

In accordance with the transitional provisions of FRS20, no expense is recorded in respect of grants made under the above schemes prior to 7th November 2002.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash).

Derivative financial instruments

The derivative financial instruments used by the group to manage its interest rate and currency risks are interest rate swaps, currency swaps and forward rate contracts. Interest receipts and payments arising on interest rate swaps are recognised within net interest payable over the period of the contract. Termination payments made or received are amortised over the life of the underlying exposure in cases where the exposure continues to exist, and taken to the profit and loss account immediately where the underlying exposure ceases to exist. Interest receipts and payments arising on currency swaps are recognised gross within interest payable and interest receivable over the period of the contract. Gains and losses arising on forward currency contracts entered into to hedge trading transactions are recognised in the profit and loss account in the same period as the underlying exposure. Forward contracts hedging cash and borrowings are valued at closing rates of exchange at each period end, with gains and losses offset against the related cash and borrowings. The interest differential on these instruments is recognised against net interest payable.

Turnover

Turnover comprises sales to external customers (excluding VAT and other sales taxes) and rental income. Consideration received from customers is only recorded as turnover when the group has completed full performance in respect of that consideration.

Stocks

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

Research and development

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

Pensions

Pension costs are recognised in the financial statements in accordance with the requirements of SSAP24 'Accounting for Pension Costs'.

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

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

The group continues to follow the transitional provisions as permitted by FRS17 'Retirement Benefits' at 31st March 2005 which are disclosed in Note 27.

Leases

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

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

Deferred taxation

Deferred tax is provided in respect of all timing differences that have originated, but not reversed, by the balance sheet date except as required by FRS19 'Deferred Tax'. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiaries and joint ventures as there is no commitment to remit these profits. It is not anticipated that any significant taxation will become payable on the revaluation surplus or sale of properties, as taxation on gains on properties used for the purpose of the group's trade is expected to be deferred indefinitely or eliminated by capital losses.