

Notes relating to the financial statements

1. Group reconciliation of changes in equity

For the year ended 31st March 2006	2006 £m	2005 £m
Total recognised income and expense for the year	1,715.8	279.5
Dividends	(1,640.3)	(225.1)
Dividends to minority interest	–	(0.6)
Net share capital issued (net of expenses)	–	2.0
Repurchase of shares	(50.0)	(300.0)
'Share based payment' share scheme awards	5.3	5.8
Disposal of own shares	(0.2)	7.7
Net increase/(decrease) in shareholders' funds	30.6	(230.7)
Opening shareholders' funds	1,620.9	1,851.6
Closing shareholders' funds	1,651.5	1,620.9

2. Segmental information

Segmental information is presented in respect of the group's business and geographical segments. The primary format, business segments, is based on the group's management and internal reporting structure. Inter-segment pricing is determined on an arm's length basis.

Business segments

The group comprises the following main business segments:

Boots The Chemists	Provision of pharmacy and dispensing services, sale of cosmetics, fragrance and toiletries and sale of baby, nutrition and photo products
Boots Opticians	Provision of opticians' services and sale of glasses and contact lenses
Boots Healthcare International	Sale of brands such as Nurofen, Clearasil and Strepsils around the world
Boots Retail International	Markets a range of Boots beauty and personal care brands such as N°7, Botanics and Mediterranean around the world

Geographical segments

The Boots Healthcare International and Boots Retail International segments operate on a worldwide basis. The Boots The Chemists and Boots Opticians segments operate primarily in the UK.

Segment revenue is based on the geographical location of customers. Segment assets are based on geographical location of the assets.

2. Segmental information continued

(i) Revenue by business segment	Notes	Total		Product revenues		Service revenues	
		2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Boots The Chemists		4,732.0	4,651.1	4,729.9	4,648.5	2.1	2.6
Boots Opticians		174.3	180.3	152.5	159.4	21.8	20.9
		4,906.3	4,831.4	4,882.4	4,807.9	23.9	23.5
Boots Retail International	a	56.3	46.4	56.3	46.4	–	–
Group and other	b	64.8	57.7	62.4	54.8	2.4	2.9
Continuing operations		5,027.4	4,935.5	5,001.1	4,909.1	26.3	26.4
Boots Healthcare International	c	430.9	494.2	430.9	494.2	–	–
Other discontinued operations	d	12.9	41.0	12.9	13.9	–	27.1
Total discontinued operations		443.8	535.2	443.8	508.1	–	27.1
Total revenue		5,471.2	5,470.7	5,444.9	5,417.2	26.3	53.5

^aBoots Retail International also generated inter-segmental revenues of £1.6m (2005 £1.9m) to Boots The Chemists.

^bGroup and other includes Boots Manufacturing third party revenues of £60.1m (2005 £55.2m).

^cBoots Healthcare International (the businesses sold to Reckitt Benckiser on 31st January 2006) also generated inter-segmental revenues of £26.1m (2005 £28.5m).

^dOther discontinued operations include Portland Ceramics and the part of Boots Manufacturing sold to Reckitt Benckiser (2005 LASIK, Dentistry, Chiroprody, Laser Hair Removal and the Handbag joint venture).

(ii) Revenue by geographical segment	2006 £m	2005 £m
UK	4,888.8	4,867.0
Rest of Europe	384.0	396.6
Rest of World	198.4	207.1
Total revenue	5,471.2	5,470.7

Included in the UK is revenue of £93.2m (2005 £181.2m) from discontinued operations. In addition, inter-segmental revenues were generated of £138.0m (2005 £130.4m).

› Notes relating to the financial statements

2. Segmental information continued

(iii) Group operating profit before finance costs 2006	BTC £m	BOL £m	BRI £m	Group and other continuing £m	Total continuing £m	BHI £m	Other dis-continued £m	Total dis-continued £m	Total £m
Trading profit ¹	388.4	(3.5)	(1.8)	(47.2)	335.9	85.2	(0.3)	84.9	420.8
Profit/(loss) on sale of PPE ²	–	(0.3)	(0.6)	8.4	7.5	(0.3)	–	(0.3)	7.2
Depreciation on disposal group assets ³	–	–	–	–	–	5.2	–	5.2	5.2
Profit on sale and leaseback ⁴	(13.6)	–	–	163.6	150.0	–	–	–	150.0
Supply chain reconfiguration ⁵	(57.1)	–	–	3.0	(54.1)	–	–	–	(54.1)
IT infrastructure ⁶	–	–	–	(37.1)	(37.1)	–	–	–	(37.1)
Store refurbishment costs ⁷	(31.0)	(2.0)	–	–	(33.0)	–	–	–	(33.0)
Operating profit before finance costs	286.7	(5.8)	(2.4)	90.7	369.2	90.1	(0.3)	89.8	459.0

¹Trading profit is used to measure ongoing operational performance. It is defined as profit before finance costs, excluding items the directors deem one-off or unusual, and profits/(losses) on the disposal of non-current assets.

²Profit/(loss) on sale of property, plant and equipment (including the factory at Airdrie) and intangible fixed assets.

³Depreciation added back due to BHI assets whilst held as disposal group assets.

⁴Profit on sale and leaseback of 312 stores in July 2005.

⁵Supply chain reconfiguration costs are those relating to the centralisation and automation programme announced on 14th March 2006.

⁶Costs associated with fundamentally restructuring contractual arrangements with third-party providers.

⁷Costs associated with the historic obligations under leases encompassed in the store investment programme announced on 14th March 2006.

Group operating profit before finance costs 2005	BTC £m	BOL £m	BRI £m	Group and other continuing £m	Total continuing £m	BHI £m	Other dis-continued £m	Total dis-continued £m	Total £m
Trading profit	459.0	2.8	(8.1)	(46.2)	407.5	84.7	(6.5)	78.2	485.7
Loss on sale of PPE	–	–	–	(6.6)	(6.6)	–	–	–	(6.6)
Profit on sale of intangible fixed assets	–	–	–	–	–	7.3	–	7.3	7.3
Closure provision	–	–	–	–	–	–	(5.4)	(5.4)	(5.4)
Operating profit before finance costs	459.0	2.8	(8.1)	(52.8)	400.9	92.0	(11.9)	80.1	481.0

2. Segmental information continued

(iv) Assets by business segment	2006 £m	2005 £m
Boots The Chemists	3,931.9	3,745.7
Boots Opticians	43.7	49.8
	3,975.6	3,795.5
Boots Retail International Group and other	80.7	29.4
	2,905.7	3,208.4
Total assets – continuing operations	6,962.0	7,033.3
Boots Healthcare International	–	695.6
Other discontinued operations	0.5	1.1
Total assets – discontinued operations	0.5	696.7
Unallocated assets	924.2	206.6
Eliminations	(4,455.6)	(4,541.1)
Total assets	3,431.1	3,395.5

(v) Liabilities by business segment	2006 £m	2005 £m
Boots The Chemists	(1,037.8)	(918.3)
Boots Opticians	(62.9)	(160.6)
	(1,100.7)	(1,078.9)
Boots Retail International Group and other	(175.4)	(142.6)
	(3,929.2)	(3,745.9)
Total liabilities – continuing operations	(5,205.3)	(4,967.4)
Boots Healthcare International	–	(223.1)
Other discontinued operations	(92.6)	(92.8)
Total liabilities – discontinued operations	(92.6)	(315.9)
Unallocated liabilities	(937.3)	(1,032.4)
Eliminations	4,455.6	4,541.1
Total liabilities	(1,779.6)	(1,774.6)

Unallocated assets and liabilities include all taxation balances and net debt. Eliminations include inter-segmental current accounts and interest-bearing balances with subsidiary companies.

(vi) Assets by geographical segment	2006 £m	2005 £m
UK	3,138.4	2,450.2
Rest of Europe	177.2	556.8
Rest of World	115.5	388.5
Total assets	3,431.1	3,395.5

Included in the UK are assets of £nil (2005 £113.0m) from discontinued operations.

2. Segmental information continued

	2006 £m	2005 £m
(vii) Capital expenditure by business segment		
Boots The Chemists	182.6	275.8
Boots Opticians	4.6	6.0
	187.2	281.8
Boots Retail International Group and other	4.7 7.7	4.2 9.9
Total capital expenditure – continuing operations	199.6	295.9
Boots Healthcare International (discontinued operations)	10.7	27.7
Total capital expenditure	210.3	323.6

	2006 £m	2005 £m
(viii) Capital expenditure by geographical segment		
UK	197.3	312.5
Rest of Europe	8.5	8.2
Rest of World	4.5	2.9
Total capital expenditure	210.3	323.6

Included in the UK is capital expenditure of £7.9m (2005 £24.1m) from discontinued operations.

	2006 £m	2005 £m
(ix) Depreciation and amortisation by business segment		
Boots The Chemists	158.4	133.5
Boots Opticians	6.5	8.0
	164.9	141.5
Boots Retail International Group and other	2.4 6.5	1.8 7.7
Total – continuing operations	173.8	151.0
Boots Healthcare International (discontinued operations)	–	6.9
Total	173.8	157.9

2. Segmental information continued

	2006 £m	2005 £m
(x) Depreciation and amortisation by geographical segment		
UK	162.4	146.5
Rest of Europe	8.7	8.6
Rest of World	2.7	2.8
Total	173.8	157.9

	2006 £m	2005 £m
(xi) Significant other non-cash expenses by business segment		
Boots The Chemists	4.1	4.0
Boots Opticians	0.4	0.4
	4.5	4.4
Boots Retail International Group and other	– 0.6	– 0.5
Total – continuing operations	5.1	4.9
Boots Healthcare International (discontinued operations)	0.2	0.2
Total	5.3	5.1

	2006 £m	2005 £m
(xii) Significant other non-cash expenses by geographical segment		
UK	5.3	4.9
Rest of Europe	–	0.2
Rest of World	–	–
Total	5.3	5.1

Significant other non-cash expenses relate to share based payments.

3. Non-current assets held for sale and discontinued operations

Discontinued operations

The principal disposal in the year was the Boots Healthcare International business to Reckitt Benckiser (completed on 31st January 2006). The consideration was £1.9bn. The Portland Ceramics business was also disposed of in the year. In the prior year the Dentistry, LASIK, Chiropody and Laser Hair Removal businesses and the Handbag joint venture were also treated as discontinued operations.

The disposal of Boots Healthcare International was largely tax free due to the substantial shareholding exemption rules and the utilisation of capital losses previously not recognised for deferred tax purposes. The tax credit of £31.4m relates to tax relief due on the costs associated with the disposal.

› Notes relating to the financial statements

3. Non-current assets held for sale and discontinued operations continued

The results of the discontinued operations are as follows:

	2006 £m	2005 £m
Revenue	443.8	535.2
Cost of sales	(102.7)	(142.2)
Gross profit	341.1	393.0
Selling, distribution and store costs	(193.3)	(232.3)
Administrative costs	(54.6)	(82.5)
Other operating expenses	(3.7)	(5.4)
Other operating income	0.3	7.3
Operating profit before finance costs	89.8	80.1
Financial income	1.8	1.9
Financial expenses	(1.7)	(2.8)
Net finance income/(costs)	0.1	(0.9)
Share of loss of joint ventures	–	(0.6)
Profit before taxation	89.9	78.6
Attributable income tax expense	(22.7)	(31.3)
Profit/(loss) on disposal of discontinued operations	1,370.7	(51.3)
Attributable tax credit	31.4	15.4
Profit for the year	1,469.3	11.4

3. Non-current assets held for sale and discontinued operations continued

	2006 £m	2005 £m
Effect of the disposal of individual assets and liabilities of the group		
Intangible fixed assets	(294.4)	–
Property, plant and equipment	(49.3)	(29.3)
Inventories	(55.7)	–
Trade receivables	(146.1)	–
Cash and cash equivalents (including overdrafts)	40.2	–
Trade payables	128.6	–
Income and deferred tax	(16.8)	–
Net identifiable assets	(393.5)	(29.3)
Related goodwill	–	(1.6)
Consideration received ¹	1,877.6	–
Disposal and other termination costs	(125.7)	(20.0)
Exchange gains recycled	12.3	–
Profit/(loss) on disposal of businesses	1,370.7	(50.9)
Loss on disposal of joint venture	–	(0.4)
Attributable tax credit	31.4	15.4
Profit/(loss) on disposal	1,402.1	(35.9)
Consideration received, satisfied in cash	1,926.0	0.3
Costs of disposal paid	(71.5)	(3.6)
Net cash inflow/(outflow)	1,854.5	(3.3)

¹Consideration received is the cash consideration of £1,926.0m less an adjustment for net debt items in the disposal balance sheet of £48.4m.

For the company, the cash inflow of £1,538.9m is the net proceeds received from the sale of BHI companies owned directly by Boots Group PLC.

Assets held for sale

Two properties with a net book value of £1.2m have been classified as held for sale in the 'Group and other' segment. It is expected that these properties will be sold within the next 12 months. No impairment in the carrying amount was made.

	2006 £m	2005 £m
Assets classified as held for sale		
Non-current assets held for sale:		
Property, plant and equipment	1.2	0.7

4. Acquisitions of businesses

There have been no acquisitions in the current year.

During the prior year, Boots The Chemists acquired a number of pharmacy businesses for £4.7m. All businesses acquired have been accounted for using the acquisition method of accounting. None of these were individually significant and they are therefore not shown separately.

These acquisitions have the following effect on the group's assets and liabilities:

4. Acquisitions of businesses continued

	2006 £m	2005 £m
Intangible fixed assets	–	4.5
Inventories	–	0.4
Receivables	–	0.9
Borrowings	–	(0.3)
Payables	–	(0.8)
Net assets	–	4.7
Consideration paid (cash)	–	(4.7)
Goodwill	–	–

There were no significant fair value adjustments in respect of these acquisitions.

	2006 £m	2005 £m
Net cash outflow from acquisitions		
Acquisition of businesses	–	(4.7)
Cash balances acquired with businesses	–	(0.3)
Investment in joint ventures	–	(0.7)
Net cash outflow	–	(5.7)
Continuing operations	–	(5.0)
Discontinued operations	–	(0.7)
Net cash outflow	–	(5.7)

5. Expenses in operating profit

	2006 £m	2005 £m
Total profit for the year is after charging:		
Research and development costs	16.1	22.6
Exchange gains	2.0	0.1
Auditors' remuneration, including £0.2m (2005 £0.2m) for the company	0.7	1.0

The group auditors and their associates also received £1.0m (2005 £0.8m) in respect of non-audit services in the UK. This represents 6% of consultancy and professional services costs of the group for 2006. £0.7m was charged in trading profit for the year and the remaining £0.3m is capitalised on the balance sheet.

This included:

- > Further assurance services of £0.4m (2005 £0.1m) that primarily relates to work for the BHI disposal;
- > Tax services of £0.4m (2005 £0.3m) with £0.1m (2005 £0.1m) relating to compliance work, the balance being advisory;
- > Other services of £0.2m (2005 £0.4m).

These latter arrangements are covered by written agreements to ensure the objectivity and independence of the auditor is not compromised.

6. Other operating income/expenses

	2006 £m	2005 £m
Other operating income		
Profit on disposal of fixed assets	8.7	4.9
Profit on sale and leaseback	150.0	–
Other	1.4	–
	160.1	4.9
Other operating expenses		
Loss on disposal of fixed assets	(6.7)	(11.5)
Supply chain reconfiguration	(54.1)	–
IT infrastructure	(37.1)	–
Other	(1.6)	–
	(99.5)	(11.5)

Details of the above are given in note 2.

7. Net finance costs

	Notes	2006			2005		
		Financing interest £m	Pension interest £m	Total £m	Financing interest £m	Pension interest £m	Total £m
Interest payable and similar charges:							
Bank loans and overdrafts		(6.7)	–	(6.7)	(8.0)	–	(8.0)
Other loans	a	(29.9)	–	(29.9)	(24.3)	–	(24.3)
Finance lease charges		(3.8)	–	(3.8)	(2.9)	–	(2.9)
Interest on pension scheme liabilities		–	(166.7)	(166.7)	–	(159.0)	(159.0)
		(40.4)	(166.7)	(207.1)	(35.2)	(159.0)	(194.2)
Interest receivable and similar income		23.5	–	23.5	11.3	–	11.3
Expected return on pension scheme assets		–	163.3	163.3	–	142.0	142.0
		23.5	163.3	186.8	11.3	142.0	153.3
Net finance costs		(16.9)	(3.4)	(20.3)	(23.9)	(17.0)	(40.9)

^aIncluded in other loans is interest payable on the £300m eurobond of £16.5m (2005 £16.5m) and €300m eurobond of £5.3m (2005 £2.4m).

> Notes relating to the financial statements

8. Income tax expense

	Continuing 2006 £m	Continuing 2005 £m	Discontinued 2006 £m	Discontinued 2005 £m
Recognised in the income statement				
Current tax:				
UK corporation tax at 30.0% (2005 30.0%)	68.0	115.8	(2.8)	(8.3)
Adjustments in respect of prior periods	(9.8)	(10.0)	1.4	(1.1)
	58.2	105.8	(1.4)	(9.4)
Relief for overseas taxation	(0.2)	(0.1)	–	(1.0)
	58.0	105.7	(1.4)	(10.4)
Overseas taxation	5.4	2.5	1.8	26.6
Total current tax expense	63.4	108.2	0.4	16.2
Deferred taxation (see note 18):				
Origination and reversal of timing differences	(18.9)	(3.2)	(9.1)	(0.3)
Total income tax expense/(credit) in income statement	44.5	105.0	(8.7)	15.9

The aggregate of current and deferred tax relating to items credited directly to equity was £23.1m (2005 charged £6.0m).

The tax charge for continuing operations is lower (2005 lower) than the standard rate in the UK (30%) because the profit arising on the sale and leaseback transaction was tax free due to the utilisation of capital losses previously unrecognised in deferred tax and due to the release of a deferred tax liability of £10.2m relating to revalued property which, following the sale and leaseback transaction, was no longer required. A full explanation of the differences is shown below:

	Continuing 2006 £m	Continuing 2005 £m	Discontinued 2006 £m	Discontinued 2005 £m
Reconciliation of effective tax rate				
Profit before taxation	348.9	360.0	1,460.6	27.3
Income tax at UK standard rate of corporation tax of 30.0%	104.7	108.0	438.2	8.2
Factors affecting charge for the year:				
Non-taxable income	(5.9)	(6.6)	–	–
Depreciation on non-qualifying fixed assets	7.5	6.5	0.3	0.3
Net other expenses/(income) not deductible for tax purposes	8.0	(6.9)	2.4	3.0
(Profit)/loss on disposal of non-qualifying assets	(44.9)	–	1.2	–
Other movements in deferred tax	(9.4)	–	(2.3)	–
Non-taxable disposal for discontinued operations	–	–	(445.2)	–
Credit for overseas taxation	–	(0.7)	–	(1.0)
Foreign tax charged at lower rates than UK standard rate	(2.6)	0.3	(0.4)	4.5
Movements on unprovided deferred tax in respect of losses	(0.3)	6.7	(1.3)	4.5
Prior year deferred tax adjustments	(3.4)	7.7	(3.2)	(8.6)
Prior year corporation tax adjustments	(9.2)	(10.0)	1.6	5.0
Total income tax expense/(credit) in income statement	44.5	105.0	(8.7)	15.9

9. Tax assets and liabilities

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Current tax assets	13.5	11.5	12.2	9.4
Current tax liabilities	(56.2)	(95.1)	–	–
Non-current tax liabilities	(0.3)	(0.6)	–	–

10. Profit for the year attributable to equity shareholders

The company has not presented its own income statement as permitted by section 230 (4) of the Companies Act 1985.

Of the profit attributable to equity shareholders, £844.7m (2005 £966.6m) is dealt with in the financial statements of the company.

The transition from UK GAAP to IFRS increased 'profit for the year' for the year ended 31st March 2005 by £1.3m.

11. Earnings per share

	2006	2005
Basic earnings per share – total	259.2p	35.9p
Diluted earnings per share – total	258.9p	35.9p
Basic earnings per share – continuing	44.5p	34.4p
Diluted earnings per share – continuing	44.4p	34.4p
Basic earnings per share – discontinued	214.7p	1.5p
Diluted earnings per share – discontinued	214.5p	1.5p
Basic earnings per share – continuing trading profit	33.9p	35.1p
Diluted earnings per share – continuing trading profit	33.9p	35.1p

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

	2006 £m	2005 £m
Earnings		
Earnings for basic and diluted earnings per share calculation – total	1,773.7	265.9
Earnings for basic and diluted earnings per share calculation – continuing	304.4	255.0
Earnings for basic and diluted earnings per share calculation – discontinued	1,469.3	10.9
Earnings for basic and diluted earnings per share calculation – continuing trading profit	232.1	259.8

	2006 £m	2005 £m
Reconciliation of trading profit		
Continuing trading profit used in earnings per share calculation	232.1	259.8
Add finance costs	20.3	40.9
Add income tax expense	44.5	105.0
Add tax on other operating items/finance costs	39.0	1.8
Continuing trading profit (see note 2)	335.9	407.5

11. Earnings per share continued

Number of shares	2006 m	2005 m
Weighted average number of shares used in basic earnings per share calculation	684.2	739.8
Dilutive effect of options	0.9	1.1
Weighted average number of shares used in diluted earnings per share calculation	685.1	740.9

The weighted average number of shares used in basic earnings per share calculation excludes 9.1m (2005 10.4m) 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.

12. Intangible fixed assets

Group	Goodwill £m	Product rights and licences £m	Software £m	Total £m
Cost				
At 1st April 2004	2.5	317.2	124.7	444.4
Acquisitions through business combinations	–	4.5	–	4.5
Other acquisitions	–	0.8	84.4	85.2
Disposals	–	(3.6)	(2.3)	(5.9)
Effect of movements in foreign exchange	–	2.0	–	2.0
At 31st March 2005	2.5	320.9	206.8	530.2
At 1st April 2005	2.5	320.9	206.8	530.2
Other acquisitions	–	0.3	43.3	43.6
Disposals	(0.7)	(289.9)	(56.2)	(346.8)
Effect of movements in foreign exchange	–	3.1	–	3.1
At 31st March 2006	1.8	34.4	193.9	230.1

12. Intangible fixed assets continued

Group	Goodwill £m	Product rights and licences £m	Software £m	Total £m
Amortisation and impairment losses				
At 1st April 2004	0.5	37.7	32.3	70.5
Amortisation for the year	–	3.7	16.8	20.5
Impairment charge	1.6	–	–	1.6
Disposals	–	(3.6)	(1.1)	(4.7)
Effect of movements in foreign exchange	–	0.1	–	0.1
At 31st March 2005	2.1	37.9	48.0	88.0
At 1st April 2005	2.1	37.9	48.0	88.0
Amortisation for the year	–	1.6	25.0	26.6
Impairment charge	–	0.2	1.3	1.5
Disposals	(0.3)	(28.9)	(3.7)	(32.9)
Effect of movements in foreign exchange	–	0.1	–	0.1
At 31st March 2006	1.8	10.9	70.6	83.3
Carrying amounts				
At 1st April 2004	2.0	279.5	92.4	373.9
At 31st March 2005	0.4	283.0	158.8	442.2
At 31st March 2006	–	23.5	123.3	146.8

Amortisation and impairment charge

The impairment charge is recognised in administrative costs within the income statement. Impairment losses of £1.3m relate to the 'Boots Retail International' segment and £0.2m relate to the 'Boots Healthcare International' segment.

The amortisation charge is recognised in the following line items in the income statement:

	2006 £m	2005 £m
Cost of sales	0.4	–
Distribution costs	8.4	2.7
Administrative costs	17.8	17.8
Total	26.6	20.5

There are £30.9m (2005 £28.0m) of intangible assets at cost which have been fully amortised and which are still in use.

› Notes relating to the financial statements

12. Intangible fixed assets continued

Impairment tests for cash-generating units containing intangibles with indefinite useful lives

The following units had significant carrying amounts of intangibles with indefinite useful lives:

	2006 £m	2005 £m
Boots Healthcare USA	–	74.9
Boots Healthcare Deutschland	–	150.6
Boots Healthcare Japan	–	23.2
	–	248.7

13. Property, plant and equipment

Group	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost				
At 1st April 2004	660.5	389.0	1,249.1	2,298.6
Acquisitions	3.1	19.0	211.8	233.9
Transfer to non-current assets held for sale	(0.9)	–	–	(0.9)
Disposals	(5.4)	(27.0)	(72.8)	(105.2)
Reclassifications	(0.7)	(103.6)	104.3	–
Effect of movements in foreign exchange	0.6	0.6	0.9	2.1
At 31st March 2005	657.2	278.0	1,493.3	2,428.5
At 1st April 2005	657.2	278.0	1,493.3	2,428.5
Acquisitions	4.1	27.1	135.5	166.7
Transfer to non-current assets held for sale	(0.5)	–	–	(0.5)
Disposals	(143.2)	(88.9)	(36.4)	(268.5)
Reclassifications	0.7	(0.5)	(0.2)	–
Effect of movements in foreign exchange	0.6	0.3	0.6	1.5
At 31st March 2006	518.9	216.0	1,592.8	2,327.7
Depreciation and impairment losses				
At 1st April 2004	51.3	238.5	603.9	893.7
Depreciation charge for the year	6.0	19.2	112.2	137.4
Transfer to non-current assets held for sale	(0.2)	–	–	(0.2)
Disposals	(2.2)	(15.9)	(37.6)	(55.7)
Reclassifications	–	(75.3)	75.3	–
Effect of movements in foreign exchange	0.1	0.3	0.5	0.9
At 31st March 2005	55.0	166.8	754.3	976.1

13. Property, plant and equipment continued

Group	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
At 1st April 2005	55.0	166.8	754.3	976.1
Depreciation charge for the year	5.3	12.5	129.4	147.2
Impairment losses	1.3	14.3	0.8	16.4
Disposals	(8.6)	(59.8)	(12.3)	(80.7)
Effect of movements in foreign exchange	0.3	0.2	0.3	0.8
At 31st March 2006	53.3	134.0	872.5	1,059.8
Carrying amounts				
At 1st April 2004	609.2	150.5	645.2	1,404.9
At 31st March 2005	602.2	111.2	739.0	1,452.4
At 31st March 2006	465.6	82.0	720.3	1,267.9

Group	2006 £m	2005 £m
Net book value of land and buildings comprises:		
Freehold	386.5	518.5
Long leasehold (more than 50 years unexpired)	79.1	83.7
	465.6	602.2

The cost of plant and machinery includes £20.4m (2005 £19.3m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £5.9m (2005 £10.2m) and for which the depreciation charge for the year was £4.1m (2005 £2.8m).

The cost of fixtures and fittings includes £88.4m (2005 £62.8m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £32.1m (2005 £15.5m) and for which the depreciation charge in the year was £17.5m (2005 £11.5m).

Property, plant and equipment includes payments on account and assets in the course of construction of £4.4m (2005 £27.3m).

Disposals include assets with a net book value of £49.3m (2005 £29.3m) associated with the disposal of businesses.

The disposal of BHI resulted in the impairment of plant and machinery used by Boots Manufacturing.

13. Property, plant and equipment continued

The impairment charge is recognised in the following line items in the income statement:

	2006 £m	2005 £m
Distribution costs	0.8	–
Administrative costs	4.8	–
Profit on disposal of discontinued operations	10.8	–
	16.4	–

£0.8m charge is within the Boots The Chemists segment and £15.6m in the group and other segment.

The carrying amount of temporarily idle property, plant and equipment was £nil (2005 £0.2m).

The carrying amount of property, plant and equipment that is not in use but not classified as held for resale is £nil (2005 £0.2m).

The cost of fully depreciated property, plant and equipment that is still in use is £398.7m (2005 £400.8m).

14. Fixed asset investments

Company	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost			
At 1st April 2004	3,230.3	897.7	4,128.0
Currency adjustments	–	5.8	5.8
Additions	805.0	455.3	1,260.3
Disposals	–	(250.0)	(250.0)
At 31st March 2005	4,035.3	1,108.8	5,144.1
At 1st April 2005	4,035.3	1,108.8	5,144.1
Currency adjustments	–	3.2	3.2
Additions	65.0	44.6	109.6
Disposals	(805.0)	(440.2)	(1,245.2)
At 31st March 2006	3,295.3	716.4	4,011.7

14. Fixed asset investments continued

Company	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Provision			
At 1st April 2004	–	–	–
Movements	–	19.2	19.2
At 31st March 2005	–	19.2	19.2
At 1st April 2005	–	19.2	19.2
Movements	957.0	(10.3)	946.7
At 31st March 2006	957.0	8.9	965.9
Carrying value			
At 1st April 2004	3,230.3	897.7	4,128.0
At 31st March 2005	4,035.3	1,089.6	5,124.9
At 31st March 2006	2,338.3	707.5	3,045.8

The principal subsidiary undertakings are listed on page 100.

15. Inventories

	Group 2006 £m	Group 2005 £m
Manufacturing		
Raw materials	17.0	26.8
Work in progress	11.5	11.6
Finished goods	27.5	91.4
	56.0	129.8
Retailing	538.4	583.8
	594.4	713.6
Included in the above are:		
Inventories held at net realisable value	25.9	34.8

During the year, £26.4m (2005 £35.0m) of inventories were written down as an expense in the income statement and £2.6m (2005 £1.4m) of inventory write-downs in previous years were reversed as a result of the disposal of the inventory.

› Notes relating to the financial statements

16. Trade and other receivables

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Non-current				
Other receivables	32.7	58.6	0.4	–
Derivative financial instruments	1.7	–	–	–
	34.4	58.6	0.4	–
Current				
Trade receivables	346.5	413.8	–	–
Owed by subsidiary undertakings	–	–	1,215.4	710.9
Other receivables	14.9	21.3	4.2	–
Prepayments and accrued income	99.9	85.8	10.8	1.1
Derivative financial instruments	0.7	1.3	0.7	–
	462.0	522.2	1,231.1	712.0

17. Cash and cash equivalents

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Bank balances	82.5	109.4	0.8	27.7
Short term deposits	773.5	19.3	773.2	–
Cash and cash equivalents	856.0	128.7	774.0	27.7
Bank overdrafts	(42.7)	(49.0)	(184.5)	(30.0)
Cash and cash equivalents in the cash flow statement	813.3	79.7	589.5	(2.3)

18. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities have been offset where they relate to the same fiscal jurisdiction and when there is also a legally enforceable right to offset the associated current tax assets and liabilities. Deferred tax assets and liabilities are attributable to the following after offset:

	Assets		Liabilities		Net	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Accelerated capital allowances	–	–	(77.1)	(87.9)	(77.1)	(87.9)
Employee benefits	16.9	26.3	–	(17.3)	16.9	9.0
Leases	3.8	4.3	–	–	3.8	4.3
Intangible assets	–	28.8	–	(14.9)	–	13.9
Site fees	–	0.7	–	–	–	0.7
Assets previously revalued	–	–	(14.8)	(26.4)	(14.8)	(26.4)
Business combinations	–	–	(2.7)	(3.4)	(2.7)	(3.4)
Financial instruments	1.4	0.4	(1.9)	(1.7)	(0.5)	(1.3)
Rolled over gains	–	–	–	–	–	–
Other temporary differences	32.6	4.9	–	15.0	32.6	19.9
Net tax assets/(liabilities)	54.7	65.4	(96.5)	(136.6)	(41.8)	(71.2)

18. Deferred tax assets and liabilities continued

No deferred tax is provided on unremitted earnings of overseas subsidiaries except where the earnings are expected to be remitted in the foreseeable future, or where the group does not control the timing of the remittance of such earnings.

	Assets		Liabilities		Net	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Company						
Financial instruments	1.4	0.4	–	(0.4)	1.4	–
Net tax assets/(liabilities)	1.4	0.4	–	(0.4)	1.4	–

The movement in the net deferred tax balance is as follows:

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
At 1st April	(71.2)	(68.5)	–	–
Exchange differences	(0.2)	(0.2)	–	–
Income statement credit – continuing	18.9	3.2	1.4	–
Income statement credit – discontinued	9.1	0.3	–	–
Credited/(charged) to equity	23.1	(6.0)	–	–
Disposed of with business	(21.5)	–	–	–
At 31st March	(41.8)	(71.2)	1.4	–

Unrecognised deferred tax assets and liabilities

The group has only recognised a deferred tax asset on deductible temporary differences, unused tax losses or tax credits that are likely to be utilised in the next five years. The provisions are after reviewing the financial forecasts of the group's position, depreciation and potential capital expenditure for capital allowances. Where it is not considered probable that taxable profit will arise against which the temporary difference can be utilised, no asset has been recognised. Unprovided deferred tax on trading losses net of amortisation is £11.2m (2005 £15.1m) and on capital losses is £44.9m (2005 £160.2m).

The group obtained a current tax benefit of £115.4m (2005 £2.3m) from the utilisation of capital losses and a current tax benefit of £2.2m (2005 £2.1m) from utilisation of trading losses on which no deferred tax asset was recognised at prior year ends.

18. Deferred tax assets and liabilities continued

Movement in deferred tax assets and liabilities during the year (before offsetting)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances in the same fiscal jurisdiction, is as follows:

	Accelerated capital allowances £m	Employee benefits £m	Leases £m	Intangible assets £m	Site fees £m	Assets previously revalued £m	Business combinations £m	Financial instruments £m	Rolled over gains £m	Other temporary differences £m	Total £m
Deferred tax assets											
At 1st April 2004	–	18.6	4.1	25.4	1.2	6.3	–	0.5	47.7	20.6	124.4
Income statement credit/(charge)	–	12.5	0.2	3.4	(0.5)	(0.7)	–	(0.1)	–	(0.7)	14.1
Charged to equity	–	(4.8)	–	–	–	–	–	–	–	–	(4.8)
At 31st March 2005	–	26.3	4.3	28.8	0.7	5.6	–	0.4	47.7	19.9	133.7
At 1st April 2005	–	26.3	4.3	28.8	0.7	5.6	–	0.4	47.7	19.9	133.7
Disposal of business	–	(3.5)	(0.2)	(26.3)	–	–	–	–	(0.1)	(15.8)	(45.9)
Income statement (charge)/credit	–	(29.0)	(0.3)	(2.5)	(0.7)	(0.7)	–	1.0	(10.8)	28.5	(14.5)
Credited to equity	–	23.1	–	–	–	–	–	–	–	–	23.1
At 31st March 2006	–	16.9	3.8	–	–	4.9	–	1.4	36.8	32.6	96.4
Deferred tax liabilities											
At 1st April 2004	(78.5)	(17.0)	–	(10.8)	–	(32.7)	(3.6)	(2.6)	(47.7)	–	(192.9)
Exchange differences	(0.2)	–	–	–	–	–	–	–	–	–	(0.2)
Income statement (charge)/credit	(9.2)	(0.3)	–	(2.9)	–	0.7	0.2	0.9	–	–	(10.6)
Charged to equity	–	–	–	(1.2)	–	–	–	–	–	–	(1.2)
At 31st March 2005	(87.9)	(17.3)	–	(14.9)	–	(32.0)	(3.4)	(1.7)	(47.7)	–	(204.9)
At 1st April 2005	(87.9)	(17.3)	–	(14.9)	–	(32.0)	(3.4)	(1.7)	(47.7)	–	(204.9)
Exchange differences	(0.1)	–	–	(0.1)	–	–	–	–	–	–	(0.2)
Disposal of business	2.9	–	–	18.0	–	–	–	–	3.5	–	24.4
Income statement credit/(charge)	8.0	17.3	–	(3.0)	–	12.3	0.7	(0.2)	7.4	–	42.5
At 31st March 2006	(77.1)	–	–	–	–	(19.7)	(2.7)	(1.9)	(36.8)	–	(138.2)
Total net deferred tax at 31st March 2006	(77.1)	16.9	3.8	–	–	(14.8)	(2.7)	(0.5)	–	32.6	(41.8)

The deferred tax assets provided in respect of assets previously revalued and rolled over gains relate to capital losses.

› Notes relating to the financial statements

19. Trade and other payables

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Non-current				
Other payables	29.7	50.9	–	–
Derivative financial instruments	0.3	–	0.3	0.5
	30.0	50.9	0.3	0.5
Current				
Trade payables	320.9	364.4	–	–
Due to subsidiary undertakings	–	–	727.5	874.0
Taxation and social security	26.2	29.1	2.3	0.1
Other payables	78.4	58.8	7.4	0.2
Accruals and deferred income	207.3	206.1	16.0	15.9
Derivative financial instruments	0.3	0.5	0.3	–
	633.1	658.9	753.5	890.2

20. Financial liabilities – borrowings

Outlined below is information regarding the contractual terms of the group's borrowings. Further information on the group's exposure to interest rate and foreign currency risk is provided in note 22.

The carrying amount of financial assets/liabilities is as follows:

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Non-current liabilities				
5.5% Eurobond 2009	(301.7)	(301.3)	(303.3)	(305.8)
€300m floating Eurobond 2007	(207.3)	(206.1)	(207.3)	(206.1)
Medium term notes	(20.5)	(25.8)	(20.5)	(25.8)
Finance lease liabilities	(45.3)	(38.1)	–	–
Bank loans	(0.1)	(15.8)	–	–
	(574.9)	(587.1)	(531.1)	(537.7)
Current liabilities				
Bank overdrafts repayable on demand	(42.7)	(49.0)	(184.5)	(30.0)
Medium term notes	(4.8)	–	(4.8)	–
Current proportion of finance lease liabilities	(19.8)	(15.5)	–	–
Bank loans	(115.8)	(119.3)	(101.5)	(80.2)
	(183.1)	(183.8)	(290.8)	(110.2)
Total borrowings	(758.0)	(770.9)	(821.9)	(647.9)
Cash and cash equivalents	856.0	128.7	774.0	27.7
Available for sale assets	0.2	0.2	–	–
Total borrowings net of cash and cash equivalents	98.2	(642.0)	(47.9)	(620.2)
Trade payables	(320.9)	(364.4)	–	–
Trade receivables	346.5	413.8	–	–
Derivative financial instruments – liabilities	(0.6)	(0.5)	(0.6)	(0.5)
Derivative financial instruments – assets	2.4	1.3	0.7	–
Loans to subsidiary undertakings	–	–	707.5	1,089.6
Owed by subsidiary undertakings	–	–	1,215.4	710.9
Due to subsidiary undertakings	–	–	(727.5)	(874.0)
Total financial assets/(liabilities)	125.6	(591.8)	1,147.6	305.8

Bank overdrafts are repayable on demand.

20. Financial liabilities – borrowings continued

The group and company have two principal bonds:

1. A bond of £300m (2005 £300m) which 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. For the group, the bond carries a fixed interest rate of 5.5% (2005 5.5%) per annum, and is due for repayment on 26th May 2009. The group has an interest rate swap agreement to convert £150m (2005 £150m) of the liability to a floating rate (see note 22). For the company, the bond is held on the balance sheet at amortised cost.
2. A bond of €300m (2005 €300m) was taken out on 19th October 2004 and is due for repayment on 19th October 2007. The bond carries a floating interest rate of three month LIBOR plus 0.35% margin.

Bank loans include £15.7m (2005 £35.0m) that relate to the factoring of certain rental commitments over a 10 year period up to March 2007.

At 31st March 2006, the group had available £600.0m (2005 £520.0m) of undrawn committed borrowing facilities.

Maturity profile of financial liabilities before the impact of derivative financial instruments (group)

Terms and debt repayment schedule 2006	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	>5 years £m
Fixed							
Eurobond 2009	(301.7)	–	–	–	(301.7)	–	–
Medium term notes	(8.7)	(4.8)	–	(3.9)	–	–	–
Finance lease liabilities	(65.1)	(19.8)	(17.5)	(13.6)	(7.9)	(2.4)	(3.9)
Bank loans	(15.7)	(15.7)	–	–	–	–	–
Floating							
€300m Eurobond 2007	(207.3)	–	(207.3)	–	–	–	–
Medium term notes	(16.7)	–	(6.9)	(9.8)	–	–	–
Bank loans	(100.0)	(100.0)	–	–	–	–	–
Bank overdrafts	(42.7)	(42.7)	–	–	–	–	–
Zero interest							
Other loans	(0.1)	(0.1)	–	–	–	–	–
Total borrowings	(758.0)	(183.1)	(231.7)	(27.3)	(309.6)	(2.4)	(3.9)
Trade payables	(320.9)	(320.9)	–	–	–	–	–
Derivative financial instruments – liabilities	(0.6)	(0.3)	0.2	(0.5)	–	–	–
Total financial liabilities	(1,079.5)	(504.3)	(231.5)	(27.8)	(309.6)	(2.4)	(3.9)

20. Financial liabilities – borrowings continued

Terms and debt repayment schedule 2005	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m
Fixed						
Eurobond 2009	(301.3)	–	–	–	–	(301.3)
Medium term notes	(9.0)	–	(5.0)	–	(4.0)	–
Finance lease liabilities	(53.6)	(15.5)	(14.6)	(11.9)	(9.0)	(2.6)
Bank loans	(35.0)	(19.2)	(15.8)	–	–	–
Floating						
€300m Eurobond 2007	(206.1)	–	–	(206.1)	–	–
Medium term notes	(16.8)	–	–	(6.9)	(9.9)	–
Bank overdrafts	(49.0)	(49.0)	–	–	–	–
Bank loans	(99.5)	(99.5)	–	–	–	–
Zero interest						
Other loans	(0.6)	(0.6)	–	–	–	–
Total borrowings	(770.9)	(183.8)	(35.4)	(224.9)	(22.9)	(303.9)
Trade payables	(364.4)	(364.4)	–	–	–	–
Derivative financial instruments – liabilities	(0.5)	–	(0.2)	–	(0.3)	–
Total financial liabilities	(1,135.8)	(548.2)	(35.6)	(224.9)	(23.2)	(303.9)

At 31st March 2005, the group had no borrowings with a maturity greater than five years.

Currency profile (group)

The analysis of financial assets and liabilities by currency (before the effect of currency hedging) is as follows:

2006	Total £m	Sterling £m	Euros £m	US Dollars £m	Other £m
Cash and cash equivalents	856.0	841.0	4.7	1.0	9.3
Available for sale assets	0.2	0.2	–	–	–
Total cash and cash equivalents	856.2	841.2	4.7	1.0	9.3
Bank overdrafts	(42.7)	(38.4)	(4.0)	(0.3)	–
Bonds	(509.0)	(301.7)	(207.3)	–	–
Medium term notes	(25.4)	–	(6.9)	–	(18.5)
Bank loans	(115.8)	(115.7)	(0.1)	–	–
Finance lease liabilities	(65.1)	(65.1)	–	–	–
Total borrowings	(758.0)	(520.9)	(218.3)	(0.3)	(18.5)
Trade payables	(320.9)	(309.5)	(8.5)	(0.2)	(2.7)
Trade receivables	346.5	332.0	8.5	1.2	4.8
Derivative financial instruments					
– assets	2.4	2.4	–	–	–
– liabilities	(0.6)	(0.6)	–	–	–
Net financial assets/(liabilities)	125.6	344.6	(213.6)	1.7	(7.1)

› Notes relating to the financial statements

20. Financial liabilities – borrowings continued

2005	Total £m	Sterling £m	Euros £m	US Dollars £m	Other £m
Cash and cash equivalents	128.7	41.7	35.1	–	51.9
Available for sale assets	0.2	0.2	–	–	–
Total cash and cash equivalents	128.9	41.9	35.1	–	51.9
Bank overdrafts	(49.0)	(45.7)	(3.3)	–	–
Short term borrowings	(80.0)	(80.0)	–	–	–
Bonds	(507.4)	(301.3)	(206.1)	–	–
Medium term notes	(25.8)	–	(6.9)	–	(18.9)
Bank loans	(55.1)	(35.0)	(0.1)	–	(20.0)
Finance lease liabilities	(53.6)	(53.6)	–	–	–
Total borrowings	(770.9)	(515.6)	(216.4)	–	(38.9)
Trade payables	(364.4)	(354.2)	(7.6)	(0.1)	(2.5)
Trade receivables	413.8	403.7	6.7	1.0	2.4
Derivative financial instruments					
– assets	1.3	1.3	–	–	–
– liabilities	(0.5)	(0.5)	–	–	–
Net financial (liabilities)/assets	(591.8)	(423.4)	(182.2)	0.9	12.9

Finance lease liabilities (group)

	Minimum lease payments			Minimum lease payments		
	2006 £m	Interest £m	Principal £m	2005 £m	Interest £m	Principal £m
Less than one year	23.7	3.9	19.8	18.3	2.8	15.5
Between one year and five years	49.4	8.0	41.4	45.0	6.9	38.1
More than five years	4.4	0.5	3.9	–	–	–
	77.5	12.4	65.1	63.3	9.7	53.6

Under the terms of the lease agreements, no contingent rents are payable.

Present value of minimum lease payments	2006 £m	2005 £m
Less than one year	23.2	17.8
Between one year and five years	45.9	40.2
More than five years	3.1	–

The group's main finance lease arrangements are for motor vehicles over three years and computer equipment over three or five years with options to renew the leases at the end of the lease term.

20. Financial liabilities – borrowings continued

Effective interest rates and re-pricing analysis (group)

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they re-price, including the impact of derivative financial instruments.

	Effective interest rate	Total £m	6 months or less £m	6-12 months £m	1-2 years £m	2-3 years £m	3-4 years £m	> 4 years £m
Cash and cash equivalents	4.5%	856.0	856.0	–	–	–	–	–
Available for sale assets	4.5%	0.2	0.2	–	–	–	–	–
Unsecured bank loans:								
Eurobond 2009 – fixed at 5.5%	5.5%	(301.7)	–	–	–	–	(301.7)	–
Effect of interest rate swaps	(0.4%)	1.7	(150.0)	–	–	–	151.7	–
€300m floating eurobond 2007								
	2.9%	(207.3)	(207.3)	–	–	–	–	–
Euro floating rate notes	2.9%	(6.9)	(6.9)	–	–	–	–	–
Jpy floating rate notes	0.3%	(9.7)	(9.7)	–	–	–	–	–
Jpy fixed rate notes	0.5%	(8.8)	–	(4.9)	–	(3.9)	–	–
Effect of currency swaps	4.4%	–	(8.8)	4.9	–	3.9	–	–
Finance lease liabilities	6.4%	(65.1)	(10.0)	(9.8)	(17.5)	(13.6)	(7.9)	(6.3)
Fixed rate bank loans	8.2%	(15.7)	(15.7)	–	–	–	–	–
Floating rate bank loans	5.0%	(142.7)	(142.7)	–	–	–	–	–
Net cash/(debt)		100.0	305.1	(9.8)	(17.5)	(13.6)	(157.9)	(6.3)
Trade payables	–	(320.9)	(320.9)	–	–	–	–	–
Trade receivables	–	346.5	346.5	–	–	–	–	–
Net financial assets/(liabilities)		125.6	330.7	(9.8)	(17.5)	(13.6)	(157.9)	(6.3)

The Euro and Japanese Yen (Jpy) floating rate notes have been swapped to sterling floating rate debt using cross currency swap contracts. The effective interest rate at the balance sheet date including the effect of these currency swaps is 4.8% for the Euro notes and 4.9% for the Jpy notes.

20. Financial liabilities – borrowings continued

Maturity profile of financial liabilities before the impact of derivative financial instruments (company)

Terms and debt repayment schedule	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m
Terms and debt repayment schedule 2006						
Fixed						
Eurobond 2009	(303.3)	–	(1.5)	(1.5)	(300.3)	–
Medium term notes	(8.7)	(4.8)	–	(3.9)	–	–
Floating						
€300m Eurobond 2007	(207.3)	–	(207.3)	–	–	–
Medium term notes	(16.6)	–	(6.9)	(9.7)	–	–
Bank overdrafts	(184.5)	(184.5)	–	–	–	–
Bank loans	(101.5)	(101.5)	–	–	–	–
Total borrowings	(821.9)	(290.8)	(215.7)	(15.1)	(300.3)	–
Derivative financial instruments – liabilities	(0.6)	(0.3)	0.2	(0.5)	–	–
Amounts due to subsidiary undertakings	(727.5)	(727.5)	–	–	–	–
Total financial liabilities	(1,550.0)	(1,018.6)	(215.5)	(15.6)	(300.3)	–
Terms and debt repayment schedule 2005						
Fixed						
Eurobond 2009	(305.8)	(0.2)	(1.4)	(1.4)	(1.5)	(301.3)
Medium term notes	(9.0)	–	(5.0)	–	(4.0)	–
Floating						
€300m Eurobond 2007	(206.1)	–	–	(206.1)	–	–
Medium term notes	(16.8)	–	–	(6.9)	(9.9)	–
Bank overdrafts	(30.0)	(30.0)	–	–	–	–
Bank loans	(80.2)	(80.2)	–	–	–	–
Total borrowings	(647.9)	(110.4)	(6.4)	(214.4)	(15.4)	(301.3)
Derivative financial instruments – liabilities	(0.5)	–	(0.2)	–	(0.3)	–
Amounts due to subsidiary undertakings	(874.0)	(874.0)	–	–	–	–
Total financial liabilities	(1,522.4)	(984.4)	(6.6)	(214.4)	(15.7)	(301.3)

20. Financial liabilities – borrowings continued

Currency profile (company)

The analysis of financial assets and liabilities by currency is as follows:

	Total £m	Sterling £m	Euros £m	US Dollars £m	Other £m
2006					
Cash and cash equivalents	774.0	773.1	–	–	0.9
Bank overdrafts	(184.5)	(184.4)	–	–	(0.1)
Bonds	(510.6)	(303.3)	(207.3)	–	–
Medium term notes	(25.4)	–	(6.9)	–	(18.5)
Bank loans	(101.4)	(101.4)	–	–	–
Total borrowings	(821.9)	(589.1)	(214.2)	–	(18.6)
Derivative financial instruments					
– assets	0.7	0.7	–	–	–
– liabilities	(0.6)	(0.6)	–	–	–
Loans to subsidiary undertakings	707.5	687.5	3.0	–	17.0
Due from subsidiary undertakings	1,215.4	1,215.0	–	0.4	–
Due to subsidiary undertakings	(727.5)	(649.8)	(77.5)	(0.2)	–
Net financial assets/(liabilities)	1,147.6	1,436.8	(288.7)	0.2	(0.7)
2005					
Cash and cash equivalents	27.7	13.6	6.8	3.2	4.1
Bank overdrafts	(30.0)	(30.0)	–	–	–
Bonds	(511.9)	(305.6)	(206.3)	–	–
Medium term notes	(25.8)	–	(6.9)	–	(18.9)
Bank loans	(80.2)	(80.2)	–	–	–
Total borrowings	(647.9)	(415.8)	(213.2)	–	(18.9)
Derivative financial instruments					
– liabilities	(0.5)	(0.5)	–	–	–
Loans to subsidiary undertakings	1,089.6	996.0	72.4	7.5	13.7
Due from subsidiary undertakings	710.9	710.9	–	–	–
Due to subsidiary undertakings	(874.0)	(641.4)	(232.4)	(0.2)	–
Net financial assets/(liabilities)	305.8	662.8	(366.4)	10.5	(1.1)

› Notes relating to the financial statements

20. Financial liabilities – borrowings continued

Effective interest rates and re-pricing analysis (company)

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they re-price.

	Effective interest rate	Total £m	6 months or less £m	6-12 months £m	1-2 years £m	2-3 years £m	3-4 years £m
Cash and cash equivalents	4.5%	774.0	774.0	–	–	–	–
Unsecured bank loans:							
Eurobond 2009 – fixed at 5.5%	5.5%	(303.3)	–	–	–	–	(303.3)
€300m floating eurobond 2007	2.9%	(207.1)	(207.1)	–	–	–	–
Euro floating rate notes	2.9%	(6.9)	(6.9)	–	–	–	–
Jpy floating rate notes	0.3%	(9.7)	(9.7)	–	–	–	–
Jpy fixed rate notes	0.5%	(8.8)	–	(4.9)	–	(3.9)	–
Effect of currency swaps	4.4%	–	(8.8)	4.9	–	3.9	–
Floating rate bank loans	5.0%	(286.0)	(286.0)	–	–	–	–
Loans to subsidiary undertakings	4.7%	707.5	707.5	–	–	–	–
Due from subsidiary undertakings	5.5%	1,215.4	1,215.4	–	–	–	–
Due to subsidiary undertakings	3.3%	(727.5)	(727.5)	–	–	–	–
Total financial assets/(liabilities)		1,147.6	1,450.9	–	–	–	(303.3)

The Euro and Japanese Yen (Jpy) floating rate notes have been swapped to sterling floating rate debt using cross currency swap contracts. The effective interest rate at the balance sheet date including the effect of these currency swaps is 4.8% for the Euro notes and 4.9% for the Jpy notes.

21. Analysis of group net cash/(debt) movement

	As at 1st April 2005 £m	Cash flow £m	Other non-cash changes £m	Currency £m	As at 31st March 2006 £m
Cash at bank and in hand	109.4	(28.5)	–	1.6	82.5
Bank overdrafts repayable on demand	(49.0)	6.3	–	–	(42.7)
Short term deposits	19.3	753.7	–	0.5	773.5
Net cash and cash equivalents	79.7	731.5	–	2.1	813.3
Obligations under finance leases	(53.6)	12.6	(24.1)	–	(65.1)
Other borrowings	(668.3)	18.0	(0.4)	0.5	(650.2)
Available for sale assets	0.2	–	–	–	0.2
Derivative financial instruments	0.8	–	1.0	–	1.8
Total	(641.2)	762.1	(23.5)	2.6	100.0

	As at 1st April 2004 £m	Cash flow £m	Other non-cash changes £m	Currency £m	As at 31st March 2005 £m
Cash at bank and in hand	110.5	(1.7)	–	0.6	109.4
Bank overdrafts repayable on demand	(112.9)	64.0	–	(0.1)	(49.0)
Short term deposits	239.0	(219.7)	–	–	19.3
Net cash and cash equivalents	236.6	(157.4)	–	0.5	79.7
Obligations under finance leases	(35.8)	17.7	(35.5)	–	(53.6)
Other borrowings	(376.7)	(293.3)	1.3	0.4	(668.3)
Available for sale assets	0.2	–	–	–	0.2
Derivative financial instruments	3.1	–	(2.3)	–	0.8
Total	(172.6)	(433.0)	(36.5)	0.9	(641.2)

22. Financial instruments

Fair values of financial instruments (group)

A comparison of carrying values and fair values of the group's financial assets and liabilities held to finance the group's operations as at 31st March 2006 is set out below.

	Carrying value 2006 £m	Fair value 2006 £m	Carrying value 2005 £m	Fair value 2005 £m
Cash and cash equivalents	856.0	856.0	128.7	128.7
Available for sale assets	0.2	0.2	0.2	0.2
Total cash and cash equivalents	856.2	856.2	128.9	128.9
Bank overdrafts	(42.7)	(42.7)	(49.0)	(49.0)
Bonds	(509.0)	(510.0)	(507.4)	(505.7)
Medium term notes	(25.4)	(25.4)	(25.8)	(25.8)
Bank loans	(115.8)	(115.8)	(135.1)	(135.9)
Finance lease liabilities	(65.1)	(72.2)	(53.6)	(58.0)
Total borrowings	(758.0)	(766.1)	(770.9)	(774.4)
Derivative instruments held to manage the interest rate and currency profile				
Interest rate derivatives	1.7	1.7	1.3	1.3
Cross currency derivatives	(0.6)	(0.6)	(0.5)	(0.5)
Foreign exchange forward contracts	0.7	0.7	–	–
	1.8	1.8	0.8	0.8
Net cash/(debt)	100.0	91.9	(641.2)	(644.7)
Trade payables	(320.9)	(320.9)	(364.4)	(364.4)
Trade receivables	346.5	346.5	413.8	413.8
Total financial assets/(liabilities)	125.6	117.5	(591.8)	(595.3)

22. Financial instruments continued

Fair values of bonds, available for sale assets and foreign exchange contracts have been determined with reference to quoted market prices. All other fair values have been determined by discounting expected future cash flows at interest rates prevailing at 31st March 2006. All fair values are shown at their 'clean' price.

Available for sale financial assets comprise gilt yield Treasury stock. Movements in fair value (derived from quoted market rates) are deferred in equity until the asset is sold. At 31st March 2006 £(0.1)m was deferred in equity (2005 £(0.1)m).

Credit risk (group)

The group invests surplus funds in high quality liquid market instruments, including money market deposits and money market funds. Such investments have a maturity no greater than three months. The difference between the book and fair value of these instruments is not significant.

The group's exposure to credit risk is controlled by setting a policy for limiting exposure to counterparties, which is reviewed annually. The objective is to reduce the risk of loss through default by counterparties, by spreading transactions, including bank deposits, across an approved list of high quality banks and cash funds. Counterparty credit positions are monitored on a regular basis. The group considers the possibility of significant loss in the event of non-performance by a financial counterparty to be unlikely.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, at the balance sheet date.

Currency risk (group)

The group utilises currency derivatives to hedge significant committed transactions and cash flows. The group is party to a variety of currency derivatives in the management of exchange rate exposures, including foreign exchange contracts and cross currency swaps.

At the balance sheet date, the total notional amount of outstanding foreign exchange contracts that the group has committed to is as follows:

	2006 £m	2005 £m
Total foreign exchange contracts	151.6	20.1

> Notes relating to the financial statements

22. Financial instruments continued

The effect of currency swaps and foreign exchange forward contracts on borrowings is shown below:

	Before hedging 2006 £m	After hedging 2006 £m	Before hedging 2005 £m	After hedging 2005 £m
Sterling	(520.9)	(719.0)	(515.6)	(595.2)
Euro	(218.3)	(38.7)	(216.4)	(155.7)
Other	(18.8)	(0.3)	(38.9)	(20.0)
Total borrowings	(758.0)	(758.0)	(770.9)	(770.9)

Forward exchange contracts (group)

At 31st March 2006, the fair value of the group's outstanding forward exchange contracts is £0.7m (2005 £nil). The amounts comprise £0.7m assets included in trade and other receivables.

At 31st March 2006, the group had outstanding £16.3m of currency exchange contracts that are designated and effective as cash flow hedges of committed transactions. Fair value movements arising from these contracts are deferred in equity until the hedged transaction takes place.

Where derivatives hedge committed acquisitions, the initial measurement of the underlying asset will be adjusted for the recognised gain or loss.

No amounts have been deferred in equity as at 31st March 2006 (2005 £nil). An amount of £(0.8)m has been transferred to the income statement in respect of contracts that have matured during the period.

All contracts outstanding at 31st March 2006 that have been designated as cash flow hedges will mature within 12 months of the balance sheet date.

Movements in fair value of all forward exchange contracts other than those designated and effective as cash flow hedges are reported directly in the income statement.

Cross currency swaps (group)

The group has a number of cross currency swap contracts in place to manage the currency and interest rate risk of foreign currency denominated debt. At 31st March 2006, the fair value of the group's cross currency swaps is £(0.6)m (2005 £(0.5)m). Movements in fair value are reported directly in the income statement along with the exchange gain or loss of the hedged item.

22. Financial instruments continued

Net investment hedge (group)

The group has designated €50m (after the effect of derivative financial instruments) of its Euro denominated debt (2005 €225m) as a hedge against the translation of its foreign operations. Exchange movements are taken to reserves to offset the gain or loss on the underlying assets. As the hedge has been highly effective in the year £0.6m (2005 £(4.9)m) is reported in equity.

Interest rate risk (group)

The group has a £150m interest rate swap in place to manage its exposure to interest rate movements on its borrowings. The interest rate swap has fixed interest receipts of 5.5% for the period up to 2009, and floating interest payments of LIBOR plus 0.175%.

The fair value of the swap at 31st March 2006 is £1.7m. The interest rate swap is designated and effective as a fair value hedge of £150m of the £300m bond. The movement in the fair value of the interest rate swap and bond are reported in the income statement.

A more detailed explanation of the group's interest rate risk policy is detailed in the Operating and Financial Review on page 35.

Hedge accounting (group)

Achieving hedge accounting under IAS 39 is based on measuring the effectiveness of the derivative as a hedge instrument as well as fulfilling hedge documentation rules. The effectiveness test compares the change in fair value of the designated derivative and the change in the fair value of the hedged item, to determine whether the ratio falls within the permitted range of 80% to 125%. Any derivative that falls outside the permitted range should be reclassified as held for trading. Where a derivative does fall within the permitted range but is not 100% effective, the ineffective portion is recognised in the income statement immediately. This gives rise to a gain or loss which is recognised with financial income or financial expense as appropriate.

Gains or losses on derivatives are recognised immediately in the income statement except where the derivative is designated as an effective cash flow or net investment hedge, in which case the gains or losses are deferred within equity and are recycled through the income statement when the hedged item is recognised in the income statement.

Trade credit risk (group)

Concentrations of credit risk with respect to trade debtors are limited due to the group's customer base being large and unrelated. Due to this, management believe that there is no further credit risk provision required in excess of the normal provision for impairment of trade debtors.

22. Financial instruments continued

Fair values of financial instruments (company)

A comparison of carrying values and fair values of the company's financial assets and liabilities held to finance the company's operations as at 31st March 2006 is set out below.

	Carrying value 2006 £m	Fair value 2006 £m	Carrying value 2005 £m	Fair value 2005 £m
Cash and cash equivalents	774.0	774.0	27.7	27.7
Bank overdrafts	(184.5)	(184.5)	(30.0)	(30.0)
Bonds	(510.6)	(510.0)	(511.9)	(505.7)
Medium term notes	(25.4)	(25.4)	(25.8)	(25.8)
Bank loans	(101.4)	(101.4)	(80.2)	(80.2)
Total borrowings	(821.9)	(821.3)	(647.9)	(641.7)
Derivative instruments held to manage the interest rate and currency profile				
Cross currency derivatives	(0.6)	(0.6)	(0.5)	(0.5)
Foreign exchange forward contracts	0.7	0.7	–	–
	0.1	0.1	(0.5)	(0.5)
Loans to subsidiary undertakings	707.5	709.2	1,089.6	1,090.9
Due from subsidiary undertakings	1,215.4	1,215.4	710.9	710.9
Due to subsidiary undertakings	(727.5)	(727.5)	(874.0)	(874.0)
Total financial assets	1,147.6	1,149.9	305.8	313.3

Fair values of bonds, available for sale assets and foreign exchange contracts have been determined with reference to quoted market prices. All other fair values have been determined by discounting expected future cash flows at interest rates prevailing at 31st March 2006. All fair values are shown at their 'clean' price.

Derivative financial instruments (company)

The company has used derivative financial instruments to hedge its and the group's exposure to fluctuations in interest and foreign exchange rates. Derivative financial instruments are designated as hedges in line with the group's risk management policies. All derivatives are measured at fair value. The only derivative financial instruments which are designated as a hedge relationship for the company are fair value hedges. Gains and losses on these instruments are recognised in the income statement and the carrying value of the hedged item is adjusted to reflect movement associated with the hedged risks.

Any derivative that falls outside the permitted range of effectiveness should be classified as held-for-trading. Where a derivative does fall within the permitted range but is not 100% effective, the ineffective portion is recognised in the income statement immediately. This gives rise to a gain or loss which is recognised under financial income or financial expense as appropriate.

22. Financial instruments continued

Loans held by the company are measured at amortised cost except where the underlying transaction is designated within an effective fair value hedge relationship. In these cases the carrying value is adjusted to reflect movements associated with the hedged risk.

At 31st March 2006, the fair value of derivative financial instruments held by the company classified as held for trading was £0.7m (2005 £nil). Changes in the fair value of derivative financial instruments held by the company classified as held for trading recognised in the income statement during the year totalled £(0.7)m (2005 £nil).

23. Provisions

Group	Refurbishment and reorganisation £m	Vacant property £m	Closure or termination of operations £m	Total £m
Balance at 1st April 2005	–	11.7	12.3	24.0
Provisions made during the year	113.1	2.7	21.7	137.5
Provisions used during the year	(0.1)	(2.8)	(4.8)	(7.7)
Provisions reversed during the year	(1.0)	(2.2)	(0.7)	(3.9)
Currency adjustments	(0.6)	–	–	(0.6)
Balance at 31st March 2006	111.4	9.4	28.5	149.3
Non-current	67.2	6.3	13.7	87.2
Current	44.2	3.1	14.8	62.1
	111.4	9.4	28.5	149.3

Vacant property

The vacant property provisions represent recognition of the expected 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.

Closure or termination of operations

The provision for closure or termination of operations relates to recognition of expected costs arising as a result of the Halfords, Lasik and Dentistry disposals, the withdrawal from Chiropody and the rationalising of the group's manufacturing facilities. In addition, a provision has been made following the disposal of BHI for the onerous supply contract with Reckitt Benckiser. The majority of the costs are expected to be incurred in the next two years.

Refurbishment and reorganisation

The refurbishment and reorganisation provision relates primarily to the Boots The Chemists store refurbishments and supply chain reorganisation. The majority of these costs are expected to be incurred in the next two years. In respect of the store refurbishment programme estimates of expected costs have been based on a store-by-store survey and comprise management's view of lease obligations.

› Notes relating to the financial statements

24. Capital and reserves

Group	Retained earnings													Total equity £m
	Own shares £m	Revaluation reserve £m	Other profit and loss £m	Total £m	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Capital redemption reserve £m	Merger reserve £m	Total £m	Minority interest £m	
Reconciliation of movement in capital and reserves														
At 1st April 2004	(139.3)	217.7	1,252.0	1,330.4	193.9	0.3	–	(0.3)	0.1	15.2	310.8	1,850.4	1.2	1,851.6
Profit for the year	–	–	265.9	265.9	–	–	–	–	–	–	–	265.9	0.5	266.4
New share capital of Boots Group PLC issued	–	–	–	–	–	2.0	–	–	–	–	–	2.0	–	2.0
Unrealised gains on cash flow hedges	–	–	–	–	–	–	–	0.3	–	–	–	0.3	–	0.3
Disposal of own shares	20.7	–	(13.0)	7.7	–	–	–	–	–	–	–	7.7	–	7.7
Repurchase of shares	–	–	(300.0)	(300.0)	(11.3)	–	–	–	–	11.3	–	(300.0)	–	(300.0)
Revaluation surplus realised on disposals	–	(1.2)	1.2	–	–	–	–	–	–	–	–	–	–	–
Revaluation reserve element of depreciation charge	–	(1.0)	1.0	–	–	–	–	–	–	–	–	–	–	–
Share based payments	–	–	5.8	5.8	–	–	–	–	–	–	–	5.8	–	5.8
Actuarial gain, net of tax	–	–	11.4	11.4	–	–	–	–	–	–	–	11.4	–	11.4
Dividends to shareholders	–	–	(225.1)	(225.1)	–	–	–	–	–	–	–	(225.1)	(0.6)	(225.7)
Currency adjustments	–	–	–	–	–	–	1.4	–	–	–	–	1.4	–	1.4
At 31st March 2005	(118.6)	215.5	999.2	1,096.1	182.6	2.3	1.4	–	0.1	26.5	310.8	1,619.8	1.1	1,620.9
At 1st April 2005	(118.6)	215.5	999.2	1,096.1	182.6	2.3	1.4	–	0.1	26.5	310.8	1,619.8	1.1	1,620.9
Profit for the year	–	–	1,773.7	1,773.7	–	–	–	–	–	–	–	1,773.7	–	1,773.7
Disposal of own shares	0.1	–	(0.3)	(0.2)	–	–	–	–	–	–	–	(0.2)	–	(0.2)
Repurchase of shares	–	–	(50.1)	(50.1)	(2.0)	–	–	–	–	2.1	–	(50.0)	–	(50.0)
Revaluation surplus realised on disposals	–	(54.5)	54.5	–	–	–	–	–	–	–	–	–	–	–
Revaluation reserve element of depreciation charge	–	(0.8)	0.8	–	–	–	–	–	–	–	–	–	–	–
Share based payments	–	–	5.3	5.3	–	–	–	–	–	–	–	5.3	–	5.3
Actuarial loss, net of tax	–	–	(54.3)	(54.3)	–	–	–	–	–	–	–	(54.3)	–	(54.3)
Dividends to shareholders	–	–	(1,640.3)	(1,640.3)	–	–	–	–	–	–	–	(1,640.3)	–	(1,640.3)
Disposal of business	–	–	–	–	–	–	(12.3)	–	–	–	–	(12.3)	(1.1)	(13.4)
Currency and other adjustments	–	–	1.0	1.0	–	–	8.8	–	–	–	–	9.8	–	9.8
At 31st March 2006	(118.5)	160.2	1,089.5	1,131.2	180.6	2.3	(2.1)	–	0.1	28.6	310.8	1,651.5	–	1,651.5

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the company, as well as from the translation of liabilities that hedge the company's net investment in foreign subsidiaries.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available for sale investments, until the investment is derecognised.

24. Capital and reserves continued

Merger reserve

The balance on the merger reserve at 31st March 2006 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.

Own share reserve

The own share reserve comprises the cost of the company's shares held by the group. At 31st March 2006 the number of own shares held by the group was 9.4m (2005 14.4m). These were held in the various employee share ownership trusts. The market value of these shares is £67.6m (2005 £90.1m). The balances in the own share reserve of the company relate to the schemes sponsored by Boots Group PLC. Balances in the group own share reserve also include schemes sponsored by The Boots Company PLC.

Capital redemption reserve

The capital redemption reserve comprises transfers from share capital of the nominal value of shares when such shares are redeemed or purchased wholly out of distributable profits.

Company	Own shares £m	Other profit and loss £m	Total retained earnings £m	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Total £m
Reconciliation of movement in capital and reserves								
At 1st April 2004	–	604.7	604.7	193.9	0.3	15.2	3,080.2	3,894.3
Profit for the year	–	966.6	966.6	–	–	–	–	966.6
Dividends to shareholders	–	(225.1)	(225.1)	–	–	–	–	(225.1)
New share capital of Boots Group PLC issued	–	–	–	–	2.0	–	–	2.0
Repurchase of shares	–	(300.0)	(300.0)	(11.3)	–	11.3	–	(300.0)
Share based payments	–	4.6	4.6	–	–	–	–	4.6
Movement in own shares	(12.5)	5.5	(7.0)	–	–	–	–	(7.0)
At 31st March 2005	(12.5)	1,056.3	1,043.8	182.6	2.3	26.5	3,080.2	4,335.4
At 1st April 2005	(12.5)	1,056.3	1,043.8	182.6	2.3	26.5	3,080.2	4,335.4
Profit for the year	–	844.7	844.7	–	–	–	–	844.7
Dividends to shareholders	–	(1,640.3)	(1,640.3)	–	–	–	–	(1,640.3)
Transfers	–	957.0	957.0	–	–	–	(957.0)	–
Repurchase of shares	–	(50.1)	(50.1)	(2.0)	–	2.1	–	(50.0)
Share based payments	–	5.3	5.3	–	–	–	–	5.3
Movement in own shares	(5.9)	–	(5.9)	–	–	–	–	(5.9)
At 31st March 2006	(18.4)	1,172.9	1,154.5	180.6	2.3	28.6	2,123.2	3,489.2

Distributable reserves of the company

£2,123.2m of reserves of the company relate to group restructurings and are not distributable. These are all held in the merger reserve.

25. Dividends

Amounts recognised as distributions to equity holders in the period	2006 p per share	2006 £m	2005 p per share	2005 £m
Final dividend for the year ended 31st March 2005/2004	21.0	150.1	21.0	158.6
Interim dividend for the year ended 31st March 2006/2005	9.1	64.3	9.1	66.5
Special dividend	200.0	1,425.9	–	–
	230.1	1,640.3	30.1	225.1
Proposed final dividend for the year ended 31st March 2006/2005	21.0	100.7	21.0	150.1

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements and there are no income tax consequences for the group.

26. Share based payments

The group operates an All Employee Share Ownership Plan (AESOP). Under the free share part of the plan, employees in service for the whole of the preceding financial year are awarded a grant of free shares, conditional on completion of three years further service from the date of grant and a profit target being met. Shares are held in trust for employees from the date of grant. The cost of this plan is calculated by charging the entitlement to shares based on the group's estimate of the number of shares likely to vest.

The group also has a Long Term Bonus Scheme under which executive directors and certain senior executives can receive ordinary shares if a performance condition based on Total Shareholder Return is met. Further details of the scheme are set out on page 48 in the Directors' Remuneration Report. Awards are made from shares purchased in the market held in an ESOP trust. The performance condition is a market based condition. Fair value is estimated at the beginning of each performance period based on expected performance and thereafter adjusted only for the impact of leavers.

The Long Term Bonus Scheme was replaced with a new Performance Share Plan for performance periods commencing 1st April 2005. Under the new scheme, executive directors can receive ordinary shares if a performance condition based on Total Shareholder Return relative to a UK retail index comprising the FTSE 350 General Retailers index and the FTSE 350 Food and Drug Retailers index (weighted 50% each). Further details of this scheme are set out on page 48 in the Directors' Remuneration Report. Fair value is estimated at the beginning of each performance period based on expected performance and thereafter adjusted only for the impact of leavers.

› Notes relating to the financial statements

26. Share based payments continued

Under an Executive Share Option Plan, executive directors and certain senior executives have been granted options to subscribe for ordinary shares subject to a performance condition based on the group's Earnings Per Share growth. Further details of the Plan are set out on page 49 in the Directors' Remuneration Report. The fair value of options on the date of grant has been estimated by an independent third party using a proprietary valuation model. The inputs into the model were option price (£5.76-£7.10), expected volatility (21-23%) based on historic volatility, expected dividend yield (5%), a share price of £6.50, a risk-free rate of 5.5% and a term of 10 years with no exercise possible during the first three years. This fair value has been spread over the expected vesting period based on estimates of future EPS performance and adjusted for leavers. New shares are issued to satisfy awards under this scheme (none have so far vested). Latest estimates of future EPS performance in March 2006 predict that none of the awards granted after 7th November 2002 are likely to vest. Amounts charged to the income statement in relation to these schemes (£1.5m) have therefore been released in 2005/2006.

Under a coinvestment plan, executive directors are entitled to invest up to 50% of their short term bonus for the previous year in Boots shares in return for a matching opportunity of up to 2:1, depending on Earnings Per Share performance over a three-year period. Further details of the scheme are set out on page 47 of the Directors' Remuneration Report. No short term bonus was paid in respect of the year ending 31st March 2005, and the plan was therefore not operated during the year ended 31st March 2006.

A number of grants under the schemes listed above and also under a Save As You Earn (SAYE) option scheme were made before 7th November 2002. The recognition and measurement principles have not been applied to these grants in accordance with the transitional provisions of IFRS 2 'Share based payment'.

26. Share based payments continued

The terms and conditions of the grants made after 7th November 2002 whereby, all rights will be satisfied by the delivery of shares are as follows:

Grant date	Number of instruments	Vesting conditions	Contractual life of shares/options
Executive options			
29/11/2002	63,842	EPS performance target after three years (retested if necessary at the end of 4, 5 and 6 years)	10 years
23/6/2003	1,568,547	EPS performance target after three years (retested if necessary at the end of 4, 5 and 6 years)	10 years
18/9/2003	272,925		10 years
4/12/2003	50,385		10 years
14/6/2004	1,444,474	EPS performance target after three years (retested if necessary at the end of 5 years)	10 years
8/11/2004	35,981		10 years
AESOP shares			
27/6/2003	1,225,378	Employment throughout the financial year prior to grant date plus a further 3 years from grant and profit target	-
2/7/2004	1,021,063		-
16/6/2005	1,107,830		-

The terms and conditions of performance cycles for the Long Term Bonus Scheme (LTBS) commencing after 7th November 2002, whereby all rights will be satisfied by the delivery of shares are as follows:

LTBS cycle commencing	Number of instruments	Vesting conditions
1/4/2003	1,857,986	Total shareholder return ranking against a peer group of 10 other companies
1/4/2004	1,085,170	
Performance share plan commencing	Number of instruments	Vesting conditions
1/4/2005	1,321,810	Total shareholder return relative to a UK Retail index (FTSE 350)

26. Share based payments continued

The number and weighted average exercise prices of executive options granted are as follows:

	Granted pre 7th November 2002		Granted after 7th November 2002	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the period	£6.21	1,629,977	£6.34	3,006,890
Forfeited during the period	£6.23	368,654	£6.28	563,781
Exercised during the period	N/a	nil	N/a	nil
Granted during the period	N/a	nil	N/a	nil
Outstanding at the end of the period	£6.20	1,261,323	£6.36	2,443,109
Exercisable at the end of the period	N/a	nil	N/a	nil

The exercise price range and average contractual life of executive options granted is as follows:

	Granted pre 7th November 2002	Granted after 7th November 2002
Exercise price range	£5.94 to £6.35	£5.76 to £7.10
Weighted average contractual life	6.0 years	8.7 years

Fair value at measurement date (for equity instruments granted during the year):

	2006 £m	2005 £m
Free shares granted during the period	6.6	7.0
Executive options granted during the period	nil	2.3
Long term bonus scheme awards with performance conditions commencing during the year	nil	2.1
Performance share plan awards with performance conditions commencing during the year	8.0	N/a
Employee expenses	2006 £m	2005 £m
Free shares granted	5.3	4.5
Executive options granted	(1.5)	0.8
Long term bonus scheme	0.1	(0.2)
Performance share plan	0.9	–
	4.8	5.1
BHI disposal	0.5	–
Total expense recognised as employee costs	5.3	5.1

27. Share capital

	2006 Number of shares m	2006 £m	2005 Number of shares m	2005 £m
Ordinary shares of 37½p (2005 25p) each:				
Authorised	806.9	300.0	1,200.0	300.0
Allotted, called up and fully paid	485.7	180.6	730.5	182.6

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

	Ordinary shares 2006 Number m	Ordinary shares 2005 Number m
On issue at 1st April	730.5	775.5
Repurchase of shares	(8.1)	(45.4)
Shares issued	–	0.4
Share consolidation	(236.7)	–
On issue at 31st March	485.7	730.5

Share repurchase

During the year to 31st March 2006, 8.1m ordinary shares were purchased and subsequently cancelled at prices ranging from 586p per share to 650p per share, with an average of 613p per share. The total cost of the purchases was £50.0m, which has been charged against distributable reserves.

Share consolidation

After the sale of Boots Healthcare International, £1.426bn was returned to shareholders by means of a special dividend of 200p per share. A share consolidation was performed on 13th February 2006 in the ratio of 39 new shares for every 58 shares held.

› Notes relating to the financial statements

27. Share capital continued

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. At 31st March 2006, options exercisable from 2006 to 2007 at between 624p and 808p per share were outstanding in respect of 0.4m shares (2005 0.9m). Under an executive share option plan, 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 2006, options exercisable from 2006 to 2015 at between 576p and 710p per share were outstanding in respect of 3.7m shares (2005 4.6m).

Own shares

At 31st March 2006 the number of own shares held by the group was 9.4m (2005 14.4m). These were held in the various employee share ownership trusts. The market value of these shares is £67.6m (2005 £90.1m).

28. Operating leases

Non-cancellable operating lease rentals are payable as follows:	2006 £m	2005 £m
Less than one year	204.7	182.2
Between one and five years	776.6	677.5
More than five years	1,385.7	1,259.5
	2,367.0	2,119.2

The group leases a large number of its properties under operating leases. The leases run predominantly for periods from 1 to 25 years, with options to renew the leases at the end of the period. Lease rentals are increased in regular intervals to reflect market rentals. None of the leases include material contingent rentals.

A £298m sale and leaseback deal on 312 stores was completed in the year. The stores were mainly freehold High Street Shops in small towns and represented around a third of Boots freehold portfolio by value and two thirds by the number of properties. The leased properties are held as operating leases. The properties have been leased back at an initial rental of £16m per annum with fixed annual uplifts of 1.5%. The average annual rental charge over the full 15-year lease period will be £18m.

During the year ended 31st March 2006, £233.7m was recognised as an expense in the income statement in respect of operating leases (2005 £198.7m).

29. Commitments and contingent liabilities

(i) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:	2006 £m	2005 £m
Contracts placed	61.3	16.9

(ii) Contingent liabilities

Knoll Pharmaceutical Co. ('Knoll') has been a defendant in a number of consumer class actions in 30 states of the USA, Canada and Puerto Rico. Knoll was 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 was 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. 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 asserted that the relevant courts in North America had no jurisdiction over it in these cases and this was approved by a state court in Illinois. In the light of current information, the directors believe that the company has good defences to such claims as may arise concerning Synthroid including any that might be brought by BASF and, while the outcome of such claims as may arise remains uncertain, they believe that it should not have a material adverse impact on the group.

30. Employee benefits

The group operates pension schemes throughout the world, most of which are final salary (defined benefit) schemes.

Boots Pension Scheme and other defined benefit plans

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 2004.

The group also operates defined benefit plans for a number of small overseas schemes. The following disclosures relate primarily to the Boots Pension Scheme. The company does not participate in, or sponsor, any of the group schemes.

Amounts recognised in the balance sheet	2006 £m	2005 £m
Present value of funded obligations	(3,524.2)	(3,096.4)
Fair value of plan assets	3,468.0	3,058.8
Recognised liability for defined benefit obligations	(56.2)	(37.6)
Amounts recognised in the balance sheet	(56.2)	(37.6)

The plan assets include bonds with a fair value of £2,918.7m, equities with a fair value of £405.9m and other net assets with a fair value of £143.4m. Of the £56.2m deficit, £21.6m relates to the principal Boots Pension Scheme. The £85m additional contribution from the BHI disposal proceeds was completed on 7th April 2006 with a payment of £42.5m.

30. Employee benefits continued

	2006 £m	2005 £m
Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation	3,096.4	2,894.0
Current service cost	61.7	75.6
Past service cost	6.0	12.7
Interest cost	166.7	159.0
Curtailments	(15.7)	–
Actuarial losses	299.8	43.5
Benefits paid	(90.7)	(88.4)
Closing defined benefit obligation	3,524.2	3,096.4

	2006 £m	2005 £m
Changes in the fair value of plan assets		
Opening fair value of plan assets	3,058.8	2,882.0
Contributions	111.9	63.5
Expected return	163.3	142.0
Actuarial gains	224.7	59.7
Benefits paid	(90.7)	(88.4)
Closing fair value of plan assets	3,468.0	3,058.8

The group expects to contribute £102.5m to its defined benefit pension plan in 2007.

	2006 £m	2005 £m
Expense recognised in the income statement		
Current service cost	61.7	75.6
Past service cost	6.0	12.7
Curtailments	(15.7)	–
Interest on obligation	166.7	159.0
Expected return on plan assets	(163.3)	(142.0)
	55.4	105.3

	2006 £m	2005 £m
The expense is recognised in the following line items in the income statement		
Cost of sales	1.6	2.4
Distribution costs	49.7	64.8
Administrative costs	16.4	21.1
Other operating expenses	(3.0)	–
Profit on sale of discontinued operations	(12.7)	–
Net finance costs	3.4	17.0
	55.4	105.3

30. Employee benefits continued

Principal actuarial assumptions at the balance sheet date	2006	2005
Inflation	2.9%	2.9%
Rate of general long-term increase in salaries	4.4%	4.4%
Rate of increase to pensions in payment	2.8%	2.8%
Discount rate for scheme liabilities	4.9%	5.4%
Expected return on plan assets		
– Bonds	4.8%	5.2%
– Equities	7.5%	7.7%
– Other net assets	4.6%	4.9%
– Property	6.5%	–
Actual return on plan assets £m	370.0	201.7

The expected rate of return on plan assets has been determined with reference to market returns at the balance sheet date. The mortality assumption used in the valuation of scheme liabilities is that for members retiring at 60, men are expected on average to live to the age 83 and women to age 85.

Amounts for the current and previous period are as follows:	2006 £m	2005 £m
Defined benefit obligation	(3,524.2)	(3,096.4)
Plan assets	3,468.0	3,058.8
Deficit	(56.2)	(37.6)
Experience adjustments on plan liabilities	9.7	95.8
Experience adjustments on plan assets	206.7	59.7

Amounts recognised in the statement of recognised income and expense (before tax)	2006 £m	2005 £m
Actual return in excess of expected return on pension scheme assets	224.7	59.7
Experience gains arising on the scheme liabilities	9.7	95.8
Changes in assumptions underlying the present value of the scheme liabilities	(309.5)	(139.3)
	(75.1)	16.2
Cumulative amount of actuarial gains/losses recognised in the SORIE at the end of the year	(58.9)	16.2

Other pension arrangements

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 £1.9m (2005 £3.3m).

› Notes relating to the financial statements

31. Employee numbers and costs

The average number of persons employed by the group:	2006 Number of heads	2006 Full time equivalents	2005 Number of heads	2005 Full time equivalents
Continuing operations				
Boots The Chemists	57,478	33,698	59,538	35,384
Boots Opticians	3,722	2,629	4,171	2,938
Boots Retail International Group and other	1,050	989	960	927
	735	675	916	852
Continuing operations	62,985	37,991	65,585	40,101
Boots Healthcare International	2,829	2,717	3,270	3,165
Other discontinued operations	27	23	776	606
Total	65,841	40,731	69,631	43,872

Total number of persons employed by continuing operations at 31st March 2006 was 62,663 heads, 38,867 full time equivalents (2005 65,700 heads, 41,620 full time equivalents).

Personnel expenses	2006 £m	2005 £m
Wages and salaries	864.0	839.5
Social security costs	68.8	67.5
Pension costs – defined contribution plans	3.8	8.4
Current service costs – defined benefit plans	61.7	75.6
Equity settled transactions	5.3	5.1
	1,003.6	996.1

There are no personnel expenses in the parent company.

32. Related parties

The group has a related party relationship with its subsidiaries, and with its directors and executive officers. Transactions between the company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

During the year the group had no material transactions with related parties.

The company has a number of loans with its subsidiary companies. All of these loans are interest-bearing and are repayable within one year. The balance of these loans owing to the company at 31st March 2006 was £639.6m (2005 £917.4m). The company also has interest-bearing balances with subsidiary companies which are repayable on demand. The net amount owing to the company at 31st March 2006 is £554.2m (2005 £20.2m).

Interest receivable on the interest-bearing loans and balances was £268.4m (2005 £262.8m) and interest payable was £184.1m (2005 £175.1m).

During the year, and also in the prior year, the company received a dividend of £1bn from a subsidiary company, The Boots Company PLC. In the prior year, the company acquired a subsidiary Boots Healthcare International (Holdings) Ltd from another subsidiary, The Boots Company PLC, for consideration of £805m.

During the year, the company made charges of £4.8m (2005 of £5.3m) to other group companies for the costs of various employee benefit arrangements which it operates on behalf of the group. Additionally, it received charges from another group company for the provision of management services of £15.5m (2005 £17.2m).

The remuneration of the directors and members of the executive committee, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Details of the remuneration, long term incentive plan interests, shareholdings, share options and pension entitlements of individual directors are included in the Directors' Remuneration Report on pages 46 to 55.

	2006 £m	2005 £m
Short-term employee benefits	5.2	3.9
Post-employment benefits	–	–
Other long term benefits	0.5	0.6
Termination benefits	1.3	–
Share based payment	0.3	0.3
Total	7.3	4.8

33. Accounting estimates and judgments

Management discussed with the Audit Committee the development, selection and disclosure of the group's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

Stock provisions The stock provision relates to subjective stores stock and covers lines which have already been, or are shortly to be, discontinued as well as product recalls and withdrawals.

The provision applied to uncounted stock is based on the average loss rates over the recent months on counted stock. The provision is based on counts, which are considered to be representative of all stores, excluding non-standard operations and stores with significant one off losses.

Critical accounting judgments in applying the group's accounting policies Certain critical accounting judgments in applying the group's accounting policies are described below.

Sale and leaseback Surveys carried out as part of the sales process identified repairs required to the properties totalling £13.6m. A clause in the sale and leaseback agreement requires Boots to make good these repairs within two years. This amount has therefore been included within the profit on disposal and will be carried as a provision on the balance sheet until all the repairs have been made.

Merger costs During 2005/2006, £7.8m of costs associated with the proposed merger with Alliance UniChem have been incurred by the company.

It is the view of management that, following the clearance of the merger by the Office of Fair Trading, the merger is now likely to proceed and on that basis feel that it is appropriate to allocate the costs to the balance sheet at 31st March 2006 and to then capitalise them during 2006/2007.

33. Accounting estimates and judgments continued

Advantage card Current provisioning policy assumes 95% of points will be redeemed.

Store refurbishment A provision has been recognised in the balance sheet at 31st March 2006 for backlog refurbishment of stores in Boots The Chemists and Boots Opticians. As management were fully committed to the expenditure at 31st March 2006 and because the group had an obligation as part of its lease agreements with landlords, they believe the appropriate accounting treatment is to make a provision in the balance sheet at that date.

34. Explanation of transition to IFRS (group)

This is the first year that the group has presented its consolidated financial statements under IFRS.

The accounting policies set out on pages 64 to 68 have been applied in preparing the financial statements for the year ended 31st March 2006, the comparative information presented in these financial statements for the year ended 31st March 2005 and in the preparation of the opening IFRS balance sheet at 1st April 2004 (the transition date).

In preparing its opening IFRS balance sheet, the group has adjusted amounts previously reported in financial statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to IFRS has affected the group's financial position, financial performance and cash flows is set out in the following tables and notes.

› Notes relating to the financial statements

34. Explanation of transition to IFRS (group) continued

Reconciliation of equity Group	Note	1st April 2004		31st March 2005		2005 under IFRS	£m
		2004 under UK GAAP	Effect of transition to IFRS	2004 under IFRS	2005 under UK GAAP		
ASSETS							
Non-current assets							
Goodwill	a	24.0	(22.0)	2.0	25.4	(25.0)	0.4
Other intangible assets	a,b	257.5	114.4	371.9	258.0	183.8	441.8
Property, plant and equipment	b,c,f	1,499.4	(94.5)	1,404.9	1,593.1	(140.7)	1,452.4
Other receivables	b,d	163.9	(111.6)	52.3	147.6	(89.0)	58.6
Deferred tax assets	k	3.0	49.7	52.7	4.9	60.5	65.4
		1,947.8	(64.0)	1,883.8	2,029.0	(10.4)	2,018.6
Current assets							
Inventories		690.8	–	690.8	713.6	–	713.6
Trade and other receivables	b,d,e	501.5	(30.3)	471.2	569.4	(47.2)	522.2
Current tax asset		13.5	–	13.5	11.5	–	11.5
Available for sale assets	e	0.1	0.1	0.2	0.1	0.1	0.2
Cash and cash equivalents		349.5	–	349.5	128.7	–	128.7
Non-current assets held for sale	f	–	1.2	1.2	–	0.7	0.7
		1,555.4	(29.0)	1,526.4	1,423.3	(46.4)	1,376.9
Total assets		3,503.2	(93.0)	3,410.2	3,452.3	(56.8)	3,395.5
LIABILITIES							
Current liabilities							
Short term borrowings and overdrafts	c	(156.5)	(11.2)	(167.7)	(173.1)	(10.7)	(183.8)
Current tax liability		(103.2)	–	(103.2)	(95.1)	–	(95.1)
Trade and other payables	c,e,g,h	(875.6)	154.4	(721.2)	(805.9)	147.0	(658.9)
Provisions		(10.9)	–	(10.9)	(12.2)	0.5	(11.7)
		(1,146.2)	143.2	(1,003.0)	(1,086.3)	136.8	(949.5)
Non-current liabilities							
Borrowings	c,e	(341.6)	(16.1)	(357.7)	(549.8)	(37.3)	(587.1)
Other payables	c,d,e,i	(41.3)	(8.0)	(49.3)	(38.3)	(12.6)	(50.9)
Deferred tax liabilities	k	(150.9)	29.7	(121.2)	(154.5)	17.9	(136.6)
Non-current tax liability		–	–	–	(0.6)	–	(0.6)
Retirement benefit obligations	d	–	(12.0)	(12.0)	–	(37.6)	(37.6)
Provisions		(15.4)	–	(15.4)	(12.3)	–	(12.3)
		(549.2)	(6.4)	(555.6)	(755.5)	(69.6)	(825.1)
Total liabilities		(1,695.4)	136.8	(1,558.6)	(1,841.8)	67.2	(1,774.6)
Net assets		1,807.8	43.8	1,851.6	1,610.5	10.4	1,620.9

34. Explanation of transition to IFRS (group) continued

Reconciliation of equity Group	Note	1st April 2004		31st March 2005		2005 under IFRS	£m
		2004 under UK GAAP	Effect of transition to IFRS	2004 under IFRS	2005 under UK GAAP		
EQUITY							
Called up share capital		193.9	–	193.9	182.6	–	182.6
Share premium account		0.3	–	0.3	2.3	–	2.3
Capital redemption reserve		15.2	–	15.2	26.5	–	26.5
Hedging reserve	e	–	(0.3)	(0.3)	–	–	–
Fair value reserve	e	–	0.1	0.1	–	0.1	0.1
Translation reserve	j	–	–	–	–	1.4	1.4
Merger reserve		310.8	–	310.8	310.8	–	310.8
Retained earnings	l	1,286.4	44.0	1,330.4	1,087.2	8.9	1,096.1
Equity shareholders' funds		1,806.6	43.8	1,850.4	1,609.4	10.4	1,619.8
Equity minority interests		1.2	–	1.2	1.1	–	1.1
Total equity		1,807.8	43.8	1,851.6	1,610.5	10.4	1,620.9

Notes to the reconciliation of equity

The impact on deferred tax of the adjustments described below is set out in note k.

- Boots has elected not to apply IFRS 3 to all business combinations that occurred before 1st April 2004, however, goodwill of £22.0m in the opening balance sheet and £25.0m at 31st March 2005 has been reclassified into 'other intangible assets'. This relates to licences that meet the broader definition of intangible assets under IFRS.
- Capitalised software costs of £92.4m at 1st April 2004 and £158.8m at 31st March 2005, that are not an integral part of the related hardware, have been reclassified as intangible fixed assets. Premiums paid on short term leases of £26.7m at 1st April 2004 and £29.4m at 31st March 2005 have been reclassified as current and non-current receivables.
- Under UK GAAP, certain leases were classified as operating leases. IFRS makes a number of changes to accounting for leases and as a consequence a number of computer equipment and vehicle leases have been reclassified as finance leases. In addition all property lease incentives have been re-phased.

The effect is to increase property, plant and equipment by £25.8m at 1st April 2004 and by £48.2m at 31st March 2005 and to increase borrowings and overdrafts by £39.4m at 1st April 2004 and by £61.9m at 31st March 2005. The effect is also to increase selling, distribution and store costs by £0.5m, decrease administrative costs by £2.8m and increase financial expenses by £2.4m for the year ended 31st March 2005.

34. Explanation of transition to IFRS (group) continued

Notes to the reconciliation of equity continued

d. Under UK GAAP, defined benefit pension obligations were recognised on a SSAP 24 basis. Under IFRS the net defined benefit pension liability has been recognised on the balance sheet and the SSAP 24 debtor has been removed and the pension prepayment reclassified. Other pension provisions have also been removed. The operating and financing costs of the defined benefit schemes are now recognised in the income statement.

The effect is to increase retirement benefit obligations by £12.0m at 1st April 2004 and £37.6m at 31st March 2005, reduce receivables by £172.0m at 1st April 2004 and £166.9m at 31st March 2005 and to reduce other payables by £6.5m at 1st April 2004 and £7.1m at 31st March 2005. The effect is also to increase selling, distribution and store costs by £12.8m, administrative costs by £6.3m and net financing costs by £17.0m for the year ended 31st March 2005.

e. One previously closed out swap was being amortised under UK GAAP but is written off to reserves in the opening balance sheet, causing an additional financial expense of £1.8m for the year ended 31st March 2005. A second interest rate swap has been included in the opening IFRS balance sheet at mark to market value and the movement in this value up to the point it was closed out has generated an additional financial expense of £0.9m for the year ended 31st March 2005. The impact of the interest rate swaps is to increase receivables by £3.4m, decrease payables by £5.0m and increase borrowings by £1.7m.

In accordance with IFRSs, available for sale investments and all derivative financial instruments have been recognised as assets or liabilities at fair value. The effect of measuring available for sale investments at fair value is to increase listed investments and fair value reserve by £0.1m at 1st April 2004 and 31st March 2005. Unrealised losses on cash flow hedges have decreased the fair value reserve by £0.3m at 1st April 2004.

f. The group applied IFRS 5 prospectively from 1st April 2004 to its assets held for sale and discontinued operations.

g. Under IAS 10, dividends declared after the balance sheet date are not recognised as a liability. The final dividend of £158.6m for the year ended 31st March 2004 was declared in June 2004 and consequently this has been reversed in the opening balance sheet. The dividend of £150.1m for the year ended 31st March 2005 was declared in July 2005 and has been reversed.

h. The timing of recognition has changed slightly for certain types of fee income received from suppliers in respect of promotional support. The impact is to increase payables by £3.6m at 1st April 2004 and £2.6m at 31st March 2005 and to decrease cost of sales by £1.0m for the year ended 31st March 2005.

34. Explanation of transition to IFRS (group) continued

i. Pension deficits on overseas schemes already held on the balance sheet have been brought in line with IAS 19 valuations. The impact is to increase other payables by £6.3m at 1st April 2004 and £8.8m at 31st March 2005 and to increase selling, distribution and store costs by £2.5m.

j. Boots has taken the exemption available in IFRS 1 that deems all cumulative translation differences for all foreign operations to be zero at 1st April 2004. Translation differences that arise after 1st April 2004 in respect of all foreign entities are presented as a separate component of equity.

k. The above changes increased/(decreased) the deferred tax balances as follows based on a tax rate of 30%:

Group	1st April 2004 £m	31st March 2005 £m
Adoption of IAS 32/39	0.5	0.4
Finance leases	4.1	4.3
Brands (see below)	25.4	28.8
Fee income	1.1	0.7
Defined benefit pensions	18.6	26.3
Increase in deferred tax asset	49.7	60.5
Defined benefit pensions	34.6	32.7
Adoption of IAS 32/39	(2.6)	(1.7)
Previously revalued assets and brands (see below)	(2.3)	(13.1)
Decrease in deferred tax liability	29.7	17.9

The effect on the income statement for the year ended 31st March 2005 was to decrease the reported tax charge by £11.4m.

For Boots there are three areas of significance where the difference between tax written down value and book value gives rise to additional deferred tax adjustments under IFRS. These are:

- Deferred tax must be provided on previously revalued properties and this results in a deferred tax liability of £26.4m at 1st April 2004 and 31st March 2005.
- Revised deferred tax calculations on purchased brands have resulted in an increase to deferred tax assets of £25.4m at 1st April 2004 and £28.8m at 31st March 2005 and a decrease to deferred tax liabilities of £27.8m at 1st April 2004 and £16.6m at 31st March 2005.
- Deferred tax on business combinations gives rise to an additional deferred tax liability of £3.6m at 1st April 2004 and £3.4m at 31st March 2005.

› Notes relating to the financial statements

34. Explanation of transition to IFRS (group) continued

l. The effect of the above adjustments on retained earnings is as follows:

Group	Note	1st April 2004 £m	31st March 2005 £m
Defined benefit pensions	d	(124.3)	(138.5)
Adoption of IAS 32/39	e	4.9	3.0
Deferred tax	k	23.1	15.7
Dividends	g	158.6	150.1
Finance leases and lease incentives	c	(9.5)	(9.4)
Fee income	h	(2.5)	(1.8)
Overseas pensions	i	(6.3)	(8.8)
Reclassification to translation reserve	j	–	(1.4)
Total adjustment to retained earnings		44.0	8.9
Attributable to:			
Equity holders of the parent		44.0	8.9
Minority interest		–	–
		44.0	8.9

34. Explanation of transition to IFRS (group) continued

Reconciliation of profit for 2005 Group	Note	2005 under UK GAAP £m	Effect of transition to IFRS £m	2005 under IFRS £m
Continuing operations				
Revenue		4,935.5	–	4,935.5
Cost of sales	h	(2,810.2)	1.0	(2,809.2)
Gross profit		2,125.3	1.0	2,126.3
Selling, distribution and store costs	c,d,i	(1,502.8)	(11.2)	(1,514.0)
Administrative costs	c,d	(202.0)	(2.8)	(204.8)
Other operating income		(4.3)	9.2	4.9
Other operating expenses		–	(11.5)	(11.5)
Group operating profit before finance costs		416.2	(15.3)	400.9
Financial income		10.1	143.2	153.3
Financial expenses		(29.0)	(165.2)	(194.2)
Net finance costs	c,d,e	(18.9)	(22.0)	(40.9)
Profit before taxation		397.3	(37.3)	360.0
Income tax expense	k	(116.4)	11.4	(105.0)
Profit after taxation from continuing operations		280.9	(25.9)	255.0
Discontinued operations				
Profit from discontinued operations	d,i,k	22.0	(10.6)	11.4
Profit for the year		302.9	(36.5)	266.4
Attributable to:				
Equity holders of the parent		302.4	(36.5)	265.9
Minority interest		0.5	–	0.5
		302.9	(36.5)	266.4

Explanation of material adjustments to the cash flow statement for 2005

Current asset investments of £19.3m comprising deposits repayable on demand were classified as liquid resources under UK GAAP and are reclassified to cash and cash equivalents under IFRS. There are no other material differences between the cash flow statement presented under IFRS compared to that presented under UK GAAP.

34. Explanation of transition to IFRS (company)

Reconciliation of equity Company	Note	1st April 2004		31st March 2005			
		2004 under UK GAAP £m	Effect of transition to IFRS £m	2004 under IFRS £m	2005 under UK GAAP £m	Effect of transition to IFRS £m	2005 under IFRS £m
ASSETS							
Non-current assets							
Investments	a	1,106.7	3,021.3	4,128.0	2,103.6	3,021.3	5,124.9
Other receivables		502.6	–	502.6	–	–	–
Deferred tax assets	b	–	–	–	–	0.4	0.4
		1,609.3	3,021.3	4,630.6	2,103.6	3,021.7	5,125.3
Current assets							
Trade and other receivables	c	1,196.2	(1,000.0)	196.2	1,712.0	(1,000.0)	712.0
Current tax asset		9.1	–	9.1	9.4	–	9.4
Cash and cash equivalents		223.0	–	223.0	27.7	–	27.7
		1,428.3	(1,000.0)	428.3	1,749.1	(1,000.0)	749.1
Total assets		3,037.6	2,021.3	5,058.9	3,852.7	2,021.7	5,874.4
LIABILITIES							
Current liabilities							
Short term borrowings and overdrafts		(141.9)	–	(141.9)	(110.2)	–	(110.2)
Trade and other payables	c	(313.3)	158.6	(154.7)	(1,040.3)	150.1	(890.2)
		(455.2)	158.6	(296.6)	(1,150.5)	150.1	(1,000.4)
Non-current liabilities							
Borrowings	b	(308.8)	1.6	(307.2)	(540.5)	2.8	(537.7)
Deferred tax liabilities	b	–	–	–	–	(0.4)	(0.4)
Other payables		(560.8)	–	(560.8)	(0.5)	–	(0.5)
		(869.6)	1.6	(868.0)	(541.0)	2.4	(538.6)
Total liabilities		(1,324.8)	160.2	(1,164.6)	(1,691.5)	152.5	(1,539.0)
Net assets		1,712.8	2,181.5	3,894.3	2,161.2	2,174.2	4,335.4
EQUITY							
Called up share capital		193.9	–	193.9	182.6	–	182.6
Share premium account		0.3	–	0.3	2.3	–	2.3
Capital redemption reserve		15.2	–	15.2	26.5	–	26.5
Merger reserve	a	–	3,080.2	3,080.2	–	3,080.2	3,080.2
Retained earnings		1,503.4	(898.7)	604.7	1,949.8	(906.0)	1,043.8
Equity shareholders' funds		1,712.8	2,181.5	3,894.3	2,161.2	2,174.2	4,335.4

34. Explanation of transition to IFRS (company) continued

Notes to the reconciliation of equity

- a. Under IAS 27, investments are required to be stated initially at fair value and any dividends paid out of pre-acquisition reserves deducted from the cost of the investment. Investments in subsidiaries have been increased by £3,021.3m at 1st April 2004 and 31st March 2005 and a non-distributable merger reserve of £3,080.2m has been created.
- b. Amortisation of the premium on the Eurobond has resulted in a decrease to financial expenses of £1.3m and a reduction in borrowings of £1.6m at 1st April 2004 and £2.8m at 31st March 2005. Deferred tax on these adjustments has resulted in a deferred tax asset of £0.4m and a deferred tax liability of £0.4m at 31st March 2005.
- c. Under IAS 10, dividends declared after the balance sheet date are not recognised as a liability. The final dividend of £158.6m for the year ended 31st March 2004 was declared in June 2004 and consequently this has been reversed in the opening balance sheet. The dividend of £150.1m for the year ended 31st March 2005 was declared in July 2005 and has been reversed. Intra-group dividends receivable of £1,000m for the years ended 31st March 2004 and 31st March 2005 have also been reversed.