

News Release



5th June 2003

FULL YEAR RESULTS TO 31ST MARCH 2003

2002/03 Highlights

- Sales from continuing operations rose by 6.0%
 - Boots The Chemists second half sales up 6.1% like for like
 - Boots Healthcare International sales up 12.3% (at comparable exchange rates)
- Profit before tax and exceptionals down by 13.0% to £555.4m
- Profit before tax down by 16.9% to £494.9m
- Profit down due to disposal of Halfords, costs of investment and exiting loss making businesses
- Basic earnings per share before exceptionals down 9.4% to 45.2p (basic earnings per share down 21.6% to 36.0p)
- Final dividend 20.2p, total dividend up 4.4% to 28.6p
- Share buyback programme returned £462.8m

Business highlights

- Strong sales growth
 - Maintained/grew counter market share in all health and beauty categories
 - Best Christmas sales performance for ten years
 - Stemmed decline in transaction numbers
- Invested in retailing basics, improving our stores, the customer offer and brand support
- Strategy focused on two core businesses with non-strategic activities exited

John McGrath, Chairman, commented:

"This has been a year of progress and significant change and we have also been investing for the future. We have exited non-core activities and we are now focused on two businesses, Boots The Chemists and Boots Healthcare International. The underlying performance of both these businesses has been strong during the past year.

We start the year in far better shape and the arrival of our new Chief Executive, Richard Baker, to lead our management team will signal an exciting new phase."

New Information

In addition to updating shareholders on performance in 2002/03 this news release contains the following new information:

- Investment plans for 2003/04
- Rationalisation costs
- Progress on the £100m Getting in Shape cost programme

Summary of business performance

For the full year ended 31st March 2003

	Turnover			Profit before exceptional items	
	Total £m	% growth	% like for like	£m	% growth
Boots The Chemists (note a)	4,284.4	+5.2	+4.8	568.6	-6.0
Boots Healthcare International	460.4	+13.0	+12.4	70.1	+5.1
BOL/Dentalcare/Footcare/WBS (note b)	262.5	+13.6	+6.3	(28.6)	
Boots Retail International	37.0	-8.2	+7.0	(22.3)	
Group and other	79.8	+6.7		(66.2)	
Inter-segmental	(31.7)	-44.1			
Continuing operations	5,092.4	+6.0		521.6	-8.7
Discontinued operation	234.9	-55.6		22.5	-58.6
Group turnover/operating profit	5,327.3	-0.1		544.1	-13.0
Interest (note c)				11.3	-14.4
Group profit before tax and exceptionals				555.4	-13.0
Group profit before tax (after exceptionals)				494.9	-16.9
Group profit before tax and exceptionals from continuing operations				532.9	-8.8

Notes:

- a. Included in Boots The Chemists is Digital Wellbeing which became a full subsidiary from 7th November 2002.
- b. Boots Opticians (BOL) includes LASIK. LASIK sales were £16.0m (2002 £8.7m) with an operating loss of £1.4m (2002 £nil). WBS relates to Wellbeing Services
- c. Interest is before exceptional credit of £92.1m (see note 4)

Boots The Chemists

Sales Growth

	H1			H2			Full Year		
	Actual	Total %	LFL %	Actual	Total %	LFL %	Actual	Total %	LFL %
Health	852.9	+6.6	+6.0	863.5	+3.6	+3.7	1,716.4	+5.1	+4.8
Beauty & Toiletries	816.6	+4.0	+3.2	1,075.3	+9.1	+8.6	1,891.9	+6.8	+6.2
Other	323.8	-3.4	-3.2	352.3	+5.8	+4.6	676.1	+1.3	+0.8
Total	1,993.3	+3.8	+3.3	2,291.1	+6.5	+6.1	4,284.4	+5.2	+4.8

Sales in Boots The Chemists grew by 5.2%. In the second half sales rose 6.5%, driven by strong trading over the Christmas period and promotional events in the fourth quarter. On shelf availability is now consistently at 98% on all lines, including key lines, a sector-leading performance.

Health

Health sales grew by 5.1%, due to continued dispensing growth (up 6.7%) and OTC medicines up 5.1% which responded well to a strong promotional programme. Vitamins sales, including complementary health, were down 2.1%.

The Department of Trade and Industry (DTI) rejected the Office of Fair Trading's recommendation for total deregulation of the current pharmacy licence arrangements, as have the Scottish Parliament and the Welsh Assembly. The Government's stated preference is for a balanced package of measures that will address competition and health objectives. The DTI is expected to issue proposals for consultation in the next few weeks.

In 2002/03 we invested in 39 new style pharmacies and introduced the new SmartScript system into 41 stores. In the current year we expect to upgrade a further 220 pharmacies and introduce SmartScript into an additional 520 stores.

Beauty & Toiletries

Sales growth in Beauty & Toiletries was 6.8%, reflecting a strong performance in Cosmetics up 11.1%. Skincare sales were up 6.2% and sunpreps up 13.8% and there was volume growth in toiletries reflecting increased promotional support.

Strong sales performance has enabled us to grow or hold market shares in all counter Health and Beauty & Toiletries categories.

Other

The sales growth of 1.3% in Other categories was due to the extended Christmas range and improved performance in Baby, up 4.7%. Food sales performed in line with last year and sales in Photo fell by 7.8%.

Retailing Initiatives

We focused on improving our customer offer in a number of areas. During the year we employed an additional 1,100 store staff. We refreshed a third of our own brand ranges and we are extending the distribution of many premium brands.

The decline in transaction numbers of recent years has been stemmed and average transaction values have increased by 7.1%. The Advantage Card has been an important driver of sales. Active cardholder numbers are up to nine million and have increased the frequency with which they shop at Boots.

We spent £30m refitting 239 of our older stores during the year, including 163 in London. We plan to refit a further 300 stores in the current year.

Sales Growth & Gross Margin

Sales growth from volume gains was 2.9% but sales were down 2.1% due to our increased promotional programme. The strong programme included 99p prices on a range of toiletries and healthcare products, and successful initiatives linked to seasonal sales. Sales on promotion were up 1% to 31% as we passed on to customers the benefit of purchasing and supply chain gains. Customers trading up during the year increased sales by 4.7%.

Gross margin percentage was down 110 basis points (bps) for the year, 10 bps better than the pre-close indication. As described at the time of the pre-close the major impact on margin was the strong promotional programme, but this has been largely offset by buying and manufacturing efficiency gains. The impact of the prior year stock adjustment, year on year, was in line with guidance given at the pre-close. Cash gross profit was up c.2.5% in the year.

Since the year end we have reduced the prices of a number of toiletries lines in the 'Lower Prices You'll Love' campaign. £40m will be invested in the campaign during 2003/04; the impact on profits is expected to be neutral.

Boots Healthcare International

Sales in Boots Healthcare International grew by 13.0% (12.3% at comparable exchange rates).

On a comparable exchange rate basis Nurofen sales grew by 21.7% to £117.8m, sales of Clearasil were up by 14.4% to £86.9m, and Strepsils sales increased by 7.7% to £77.8m.

Brand investment increased by 27%.

Operating profit at £70.1m was up by £3.4m.

The business has met or is on track to meet the commitments it made in February 2002:

	Commitment	2002/03 Actual
Sales growth	+5-7%	+13%
NPD spend	+30%	+42%
Brand marketing support	+20%	+26%
6 – 8 leading brands		On track
£100m profit by 2005/06		On track

Wellbeing Services

The decision to exit Wellbeing Services was announced in our pre-close trading statement on 27th March 2003.

Opticians and Eyecare sales increased by 6.2% to £217.5m. Operating profit in core optics was flat at £9.6m. Dentalcare and Footcare sales increased by 57% to £30.6m, and operating losses were £21.9m. Sales from the services we are exiting were £14.4m and operating losses were £14.9m. An exceptional charge of £34.5m is being taken for exit costs as required by accounting standards.

Boots Retail International

Sales in Boots Retail International fell by 8.2% to £37.0m although the prior year included an element of pre-closure sales in Japan. Like for like sales in Thailand increased by 7.0%.

Operating losses at £22.3m were 7.5% less than the previous year. They include a £5.5m provision associated with the exit from loss-making operations in Europe and the simplification of the Taiwan business.

Group

Operating Profit

Operating profit at £544.1m was down 10.7% due to the disposal of Halfords part way through the year (£32m), pension costs £25m higher than the previous year, higher investment costs in Boots The Chemists (£21m), and the costs of rationalising/exiting loss making businesses (£24m).

Investing for the Future

In 2002/03 we made a significant investment in renewing the Boots The Chemists business and the group's infrastructure. The table below provides a breakdown for the year and guidance on our plans for further incremental investment in 2003/04.

	2002/03 £m	2003/04 £m
Investing in stores		
Refits	32	55
Edge of Town	2	33
Portfolio development	11	40
Tills	2	6
	47	134
Investing in Pharmacy		
Refits	3	10
Systems	6	15
	9	25
Infrastructure		
IT Systems Backbone *	12	79
Total investment	68	238
Of which:		
Revenue	22	65
Capital	46	173
	68	238

Total Group capital spend **149** **250**

The remaining capital spend relates to marketing and trading initiatives, IT and other infrastructure spend and maintenance of stores and production facilities.

* The Backbone project will implement new integrated systems for the group.

Rationalisation Costs

In the pre-close trading statement we announced the closure of Wellbeing Services and the Pure Beauty stores together with changes in Boots Retail International. The table below sets out the rationalisation costs incurred together with those for decisions taken previously in respect of Digital Wellbeing Ltd and the Sainsbury trial. Similar information is provided for the early stages of the Getting in Shape programme, and the estimated impact on 2003/04 profitability is shown.

	2002/03 Operating costs £m	2002/03 Exceptional Costs £m	2003/04 Operating Cost £m	Total cost £m	2003/04 P&L Improvement vs 2002/03 ⁱⁱⁱ £m
Business closure & restructuring (Digital Wellbeing, Sainsbury Trial, Pure Beauty, Wellbeing Services, BRI)	(18)	(35)	(7) ⁱⁱ	(60) ⁱ	42 ^{iv}
Getting in Shape	(22)	-	(23)	n/a	31
	(40)	(35)	(30)		73

Notes:

- i) Estimated total rationalisation costs for Pure Beauty, Wellbeing Services and Boots Retail International are £51m versus the £55m estimate at pre-close.
- ii) £7m in i) above arises from Pure Beauty to be recognised on the closure of stores in June 2003.
- iii) This shows the gross improvements to the 2003/04 P&L account before any rationalisation costs in the year. It is the change on the 2002/03 P&L account before the rationalisation costs were charged.
- iv) Estimated P&L improvement in Digital Wellbeing (now boots.com), Wellbeing Services and Boots Retail International versus 2002/03 P&L is £35m compared with the estimate of £22m at pre-close.

Getting in Shape

A good start has been made to the £100m cost programme announced last November. A re-engineering of the Boots The Chemists supply chain is underway to reduce inventory and stock holding in stores. The closure of the Airdrie factory was announced in February and the outsourcing of the management of part of our central warehouse network and the transport fleet have been announced since the year end.

We have begun a programme to reduce head office headcount including the HR, finance, and IT functions.

Exceptional Items

Exceptional items for 2002/03 were:

Non operating exceptional items (para 20)	£m
Profit on disposal of fixed assets	5.1
Disposal of Halfords business	(123.2)
Closure of Wellbeing Services operations	(34.5)
	<u>(152.6)</u>

Exceptional interest – closure of interest rate and index linked swaps	92.1
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Share Buy Back and Halfords Disposal

By the end of March the company had returned over half of the net proceeds from the sale of Halfords through its share buy back programme. The buy back programme will recommence shortly, and we anticipate it being completed over the next six months.

Net Debt

Net debt at 31st March was £51.5m, a reduction of £94.8m since 31st March 2002.

Outlook

During 2003/04 we will continue to invest in both our core businesses, Boots The Chemists and Boots Healthcare International, to drive profitable top line growth.

Sales comparatives will become more testing as the year progresses, however most of the initiatives to drive sales, including new stores and new product launches will come through in the second half of the year.

We expect gross margins in Boots The Chemists to be broadly flat in the year as the impact of higher investment levels is mitigated by cost of goods improvements.

**BOOTS GROUP PLC
PRELIMINARY RESULTS**

**GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 2003**

	Notes	Total 2003 £m	Total 2002 £m
Turnover			
Turnover from continuing operations		5,092.4	4,803.7
Discontinued operation		234.9	528.5
Turnover: group and share of joint ventures	1	5,327.3	5,332.2
Less: share of joint ventures' turnover		(2.1)	(3.9)
Group turnover		5,325.2	5,328.3
Operating Profit			
Operating profit from continuing operations (*)		534.8	575.7
Discontinued operation		22.5	54.3
Group operating profit		557.3	630.0
Share of operating loss of joint ventures		(13.2)	(20.9)
Total operating profit including share of joint ventures		544.1	609.1
Profit/(loss) on disposal of fixed assets	3	5.1	(6.0)
Provision for loss on closure of operations	3	(34.5)	-
Loss on disposal of business	3,9	(123.2)	(14.9)
Share of joint venture loss on closure of business	3,9	-	(5.6)
Profit on ordinary activities before interest	2	391.5	582.6
Net interest receivable and similar items (*)	4, 11	103.4	13.2
Profit on ordinary activities before taxation		494.9	595.8
Tax on profit on ordinary activities	5	(192.7)	(191.2)
Profit on ordinary activities after taxation		302.2	404.6
Equity minority interests		(0.5)	(0.3)
Profit for the financial year attributable to shareholders		301.7	404.3
Dividends paid and proposed	6	(230.7)	(240.6)
Retained profit for the financial year		71.0	163.7
Basic earnings per share	7	36.0p	45.9p
Basic earnings per share before exceptionals	7	45.2p	49.9p
Diluted earnings per share	7	35.9p	45.8p
Diluted earnings per share before exceptionals	7	45.1p	49.8p
Dividends per share	6	28.6p	27.4p

* Includes exceptional items - see notes 3 and 4 for details.

**BOOTS GROUP PLC
PRELIMINARY RESULTS**

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31ST MARCH 2003**

	2003 £m	2002 £m
Profit for the financial year attributable to shareholders	301.7	404.3
Revaluation of investment properties	17.1	1.5
Currency translation differences on foreign currency net investments	7.5	(3.0)
Total recognised gains and losses for the year	326.3	402.8

**NOTE ON HISTORICAL COST PROFITS AND LOSSES
FOR THE YEAR ENDED 31ST MARCH 2003**

	2003 £m	2002 £m
Reported profit on ordinary activities before taxation	494.9	595.8
Realisation of property revaluation surpluses	10.2	0.7
Difference between historical cost depreciation charge and actual charge for the year calculated on revalued amounts	1.0	2.2
Historical cost profit on ordinary activities before taxation	506.1	598.7
Historical cost profit retained	82.2	166.6

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31ST MARCH 2003**

	2003 £m	2002 £m
Total recognised gains and losses for the year	326.3	402.8
Dividends	(230.7)	(240.6)
New share capital issued (net of expenses)	(0.3)	0.7
Repurchase of shares	(462.8)	(45.9)
Goodwill released on disposal of businesses	349.3	22.4
Net (decrease)/increase in shareholders' funds	(18.2)	139.4
Opening shareholders' funds	2,017.6	1,878.2
Closing shareholders' funds	1,999.4	2,017.6

**BOOTS GROUP PLC
PRELIMINARY RESULTS**

**GROUP BALANCE SHEET
31ST MARCH 2003**

	2003 £m	2002 £m
Fixed assets		
Intangible assets	301.3	298.2
Tangible assets	1,516.5	1,727.7
Investment in joint ventures	-	18.0
Other investments	84.7	103.7
	1,902.5	2,147.6
Current assets		
Stocks	638.6	648.1
Debtors falling due within one year	536.6	550.0
Debtors falling due after more than one year	114.0	96.1
Current asset investments and deposits	293.1	308.7
Cash at bank and in hand	203.4	100.4
	1,785.7	1,703.3
Creditors: Amounts falling due within one year	(1,112.7)	(1,174.7)
Net current assets	673.0	528.6
Total assets less current liabilities	2,575.5	2,676.2
Creditors: Amounts falling due after more than one year	(401.8)	(480.0)
Provisions for liabilities and charges	(173.8)	(177.9)
Net assets	1,999.9	2,018.3
Capital and reserves		
Called up share capital	203.5	223.2
Share premium account	-	253.9
Revaluation reserve	260.3	254.4
Capital redemption reserve	5.6	42.6
Merger reserve	310.8	-
Profit and loss account	1,219.2	1,243.5
Equity shareholders' funds	1,999.4	2,017.6
Equity minority interests	0.5	0.6
Non-equity minority interests	-	0.1
	1,999.9	2,018.3

**BOOTS GROUP PLC
PRELIMINARY RESULTS**

**GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST MARCH 2003**

	Notes	2003 £m	2002 £m
Cash inflow from operating activities	8	582.3	722.4
Returns on investment and servicing of finance (#)		75.0	40.7
Taxation		(196.7)	(139.2)
Purchase of fixed assets		(145.8)	(172.1)
Disposal of fixed assets		118.6	62.2
Disposal of own shares		3.1	7.7
Acquisitions and disposals	8	358.1	3.9
Equity dividends paid		(238.3)	(234.5)
Cash inflow before use of liquid resources and financing		556.3	291.1
Management of liquid resources		15.8	(234.3)
Financing	8	(511.8)	(55.2)
Increase in cash in the year		60.3	1.6

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

Including exceptional interest received of £53.8m. In addition £46.8m was received in 2002 in relation to this item.

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT
FOR THE YEAR ENDED 31ST MARCH 2003**

	Notes	2003 £m	2002 £m
Increase in cash in the year		60.3	1.6
Cash (inflow)/outflow from change in liquid resources		(15.8)	234.3
Cash outflow from change in borrowings and lease financing	8	46.0	20.0
Movement in net debt resulting from cash flows		90.5	255.9
Finance lease additions		(1.8)	(11.6)
Increase in value of investment in 10.125% bond 2017		5.8	21.9
Currency and other non-cash adjustments		0.3	(2.3)
Movement in net debt during the year		94.8	263.9
Opening net debt		(146.3)	(410.2)
Closing net debt		(51.5)	(146.3)

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

NOTES ON RESULTS

1. Turnover by business segment

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

Notes

- a) Boots The Chemists includes Digital Wellbeing sales of £6.9m, including £5.7m as a subsidiary (2002 £1.4m, all as a joint venture).
- b) Boots Healthcare International also made inter-segmental sales of £30.3m (2002 £21.8m)
- c) Boots Retail International also made inter-segmental sales of £1.4m (2002 £nil)
- d) Group and other includes Boots Manufacturing third party sales of £68.1m (2002 £65.3m)
- e) Halfords has been treated as a discontinued operation

2. Profit before interest by business segment

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

Notes

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

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

c) Halfords has been treated as a discontinued operation.

3. Exceptional items

	2003 £m	2002 £m
Profit/(loss) on disposal of fixed assets - continuing	5.1	(12.2)
Profit on disposal of fixed assets - discontinued	-	6.2
Loss on disposal or closure of operations		
Provision for loss on closure of operations (continuing)	(34.5)	-
Share of joint venture loss on closure of business (continuing)	-	(5.6)
Loss on disposal of business (continuing)	-	(12.6)
Loss on disposal of business (discontinued) - see note 9	(123.2)	(2.3)
Total exceptional items before interest and taxation	(152.6)	(26.5)
Attributable tax credit	11.1	2.0
	(141.5)	(24.5)

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

As detailed in note 4 and 11 an exceptional interest credit of £92.1m arose in the year to 31st March 2003, the tax on which is £27.6m.

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

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

The attributable tax credit was £4.9m.

4. Net interest receivable and similar items

	2003 £m	2002 £m
Interest payable and similar charges:		
Bank loans and overdrafts	(7.9)	(9.3)
Other loans	(23.9)	(42.2)
Finance lease charges	(0.9)	(1.0)
Interest capitalised	-	0.3
Income from interest rate swaps	22.0	29.3
	(10.7)	(22.9)
Interest receivable and similar income	16.6	14.5
Increase in value of investment in 10.125% bond 2017	5.8	21.9
Share of interest of joint ventures	(0.4)	(0.3)
Net interest receivable and similar items before closure of interest rate swaps	11.3	13.2
Exceptional interest on closure of interest rate swaps (see note 11)	92.1	-
Net interest receivable and similar items	103.4	13.2

Interest payable and similar charges includes interest payable on the 10.125% bond 2017 of £5.8m (2002 £25.3m) and Eurobond of £16.5m (2002 £16.5m). The 10.125% bond 2017 was redeemed on 25th June 2002. Following redemption there is no further impact on the profit and loss account.

5. Tax on profit on ordinary activities

	2003 £m	2002 £m
Current tax	207.3	151.3
Relief for overseas taxation	(6.6)	(3.6)
	200.7	147.7
Overseas taxation	15.6	6.8
Total current tax charge for the year	216.3	154.5
Deferred taxation	(23.6)	36.7
	192.7	191.2

A tax charge totalling £16.5m and included above represents a credit of £11.1m on exceptional non-operating items and a charge of £27.6m attributable to the exceptional interest (2002 credit of £6.9m attributable to operating and non-operating exceptional items).

Reconciliation of current tax charge

	2003 £m	2002 £m
Profit on ordinary activities before taxation	494.9	595.8
Tax on profit on ordinary activities at UK standard rate 30%	148.5	178.7
Factors affecting charge for the year:		
Changes in accelerated capital allowances	7.0	(4.4)
Changes in pension fund prepayment	6.3	(25.5)
Other timing differences	4.0	2.4
Intangibles amortisation	(4.5)	(12.2)
Disallowable expenses	19.3	10.2
Exceptional items	34.8	3.1
Foreign tax charged at higher rates than UK standard rate	2.5	3.1
Prior year adjustments	(1.6)	(0.9)
Total current tax charge for the year	216.3	154.5

6. Dividends

The directors have proposed a final dividend of 20.2p per share that amounts to approximately £161.4m. If approved the total dividends for the year will be 28.6p per share (2002 27.4p per share). The proposed final dividend if approved will be paid on 22nd August 2003 to shareholders registered on 20th June 2003. Most shareholders (excluding those in Canada and the USA) will have the opportunity to reinvest their cash dividend in existing shares bought on the London Stock Exchange through a dividend reinvestment plan. The company's registrars must receive all applications to join that plan or amend existing instructions under it by 17.00 on 1st August 2003.

7. Earnings per share

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

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

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

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

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

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

Basic and diluted earnings per share before exceptional items are disclosed to reflect the underlying performance of the group.

8. Notes to the Group Cash Flow Statement

	2003 £m	2002 £m
Reconciliation of operating profit to operating cash flows		
Group operating profit	557.3	630.0
Operating exceptional items	-	16.4
Group operating profit before exceptional items	557.3	646.4
Depreciation, amortisation and impairments of fixed assets	162.8	163.4
Loss on disposal of fixed assets	5.5	5.6
Increase in working capital	(132.8)	(63.9)
Other non-cash movements	(2.4)	0.2
Net cash inflow before expenditure relating to exceptional items	590.4	751.7
Exceptional operating cash flows (see below)	(8.1)	(29.3)
Cash inflow from operating activities	582.3	722.4
Exceptional operating cash flows		
Restructuring and integration costs paid	(8.1)	(29.3)
	(8.1)	(29.3)
Financing		
Capital element of finance lease rental agreements	(8.1)	(7.9)
Decrease in other borrowings	(37.9)	(12.1)
Cash outflow from change in borrowings and lease financing	(46.0)	(20.0)
Issue of ordinary share capital (net of expenses)	(0.3)	0.7
Repurchase of shares	(465.5)	(35.9)
	(511.8)	(55.2)
Acquisitions and disposals		
Acquisition of businesses	(1.2)	(0.6)
Disposal of businesses	396.0	25.2
Cash balances sold with business	(21.5)	-
Cash balance acquired with businesses	1.0	-
Deferred consideration in respect of prior year acquisitions and disposals	0.6	1.0
Costs of disposals paid	(8.6)	(3.4)
Investment in joint ventures	(9.3)	(19.9)
Repayment of loan by joint venture	1.1	1.6
	358.1	3.9

9. Acquisition and disposal of businesses

Acquisition

During the year the group acquired the remaining 40% stake of Digital Wellbeing Limited from Granada for £1. In addition, Boots placed DWL in funds to settle £5.1m of Granada's loan funding of the company. There were no significant fair value adjustments in respect of this acquisition.

Disposals

	2003 £m	2002 £m
Net assets disposed of	(148.3)	(12.2)
Related goodwill	(349.3)	(22.4)
Disposal and other termination costs	(21.6)	(5.5)
Consideration	396.0	25.2
Loss on disposal of businesses	(123.2)	(14.9)
Share of joint venture loss on closure of business	-	(5.6)
Total loss on disposal	(123.2)	(20.5)

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

Boots is returning to shareholders the net proceeds of the sale through a share buy back programme that commenced in the second half of the financial year. By the year end 37.4m shares at a cost of £209m had been repurchased. This programme is additional to the £300m buy back programme initiated in March 2002 and now completed.

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

10. Pensions

Following the Accounting Standards Board proposal in July 2002 to extend the transitional regime of FRS17, given the move towards compliance with international standards, the group has decided that it will continue to account for pensions under SSAP24. The pension costs for the Boots pension scheme for the year under SSAP24 was £31m (2002 £5m). Total pension costs including other UK schemes and overseas arrangements is £36m (2002 £10m). The scheme surplus under SSAP24 at the last valuation in 2001 was £0.3bn.

FRS17, the UK pensions standard, discounts pension commitments, including salary growth, at an AA bond yield. The value of liabilities at 31st March 2003 was £2.5bn (2002 £2.2bn) and the market value of assets was £2.7bn (2002 £2.4bn), giving a pension scheme surplus of £0.2bn (2002 £0.2bn), before tax.

The service or operating cost of the scheme for the current year under FRS17 is £78m (2002 £72m). The cost after net investment charges / credits is £83m (2002 £60m).

Notes to Broadcast Editors

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