

# News Release



27<sup>th</sup> May 2004

## PRELIMINARY RESULTS TO 31<sup>ST</sup> MARCH 2004

### Strong Group Performance

- **5% increase in sales** from continuing operations to £5,326m (£5,087m)
- **6% increase in operating profit from continuing operations including joint ventures to £550.1m** (£519.1m). Includes £16m rationalisation costs brought forward due to acceleration of the head office voluntary redundancy programme. This is a timing issue which will benefit costs for 2004/05
- **3% increase to £544.6m in profit before tax and exceptionals from continuing operations** (£530.4m)
- **7% increase in basic earnings per share before exceptionals to 48.2p (45.0p)**, 48% increase in basic eps to 52.9p (35.8p)
- **4% increase in full year dividend** to 29.8p (28.6p)
- **Up to £700m share buyback planned over two years** with an ongoing intention to return surplus cash to shareholders

### Strong Sales Growth Continuing

- **Boots The Chemists delivers seven consecutive quarters of higher like for like sales growth** all above the BRC average. Like for like growth for the year was 3.9%
- **Boots Healthcare International sales up 8%** in local currency with all major brands delivering strong sales growth

### Good Progress at Boots

- **Concentration on Retailing Basics** to meet customer demand for more convenience. Progress made on longer opening hours, faster pharmacies, clearer signage, product availability and shorter queues
- **Growth plan for BTC** based on additional space in new locations, expert people, products only available at Boots, value for money and greater efficiency

### Richard Baker, Chief Executive commented:

“We now have in place a clear business plan to make Boots more modern, competitive and efficient which builds the foundations for a stronger Boots The Chemists.”

## Summary of business performance

For the full year ended 31<sup>st</sup> March 2004 (note a)

	Sales				Profit before tax		
	2004 £m	2003 £m	% growth	% LFL	2004 £m	2003 £m	% growth
Boots The Chemists	4,475.7	4,283.4	+4.5	+3.9	531.1	568.4	-6.6
Boots Healthcare International	504.6	460.4	+9.6	+7.8	80.6	70.1	+15.0
Boots Opticians and Dentalcare (note b)	241.6	258.6	-6.6	-5.0	(5.1)	(30.9)	+83.5
Boots Retail International	43.0	37.0	+16.1	+20.8	(10.4)	(22.3)	+53.4
Group and other (note c)	91.5	79.8	+14.7		(46.1)	(66.2)	
Inter-segmental	(30.0)	(31.7)					
<b>Continuing operations</b>	<b>5,326.4</b>	<b>5,087.5</b>	<b>+4.7</b>		<b>550.1</b>	<b>519.1</b>	<b>+6.0</b>
Discontinued operation	-	234.9	-100.0		-	22.5	-100.0
<b>Total</b>	<b>5,326.4</b>	<b>5,322.4</b>	<b>+0.1</b>		<b>550.1</b>	<b>541.6</b>	<b>+1.6</b>
Interest					(5.5)	11.3	
<b>Profit before tax and exceptionals</b>					<b>544.6</b>	<b>552.9</b>	<b>-1.5</b>
<b>Profit from continuing operations before tax and exceptionals</b>					<b>544.6</b>	<b>530.4</b>	<b>+2.7</b>
<b>Group profit before tax (after exceptionals)</b>					<b>581.0</b>	<b>492.4</b>	<b>+18.0</b>

Notes:

- Sales and profit growth are based on restated prior year comparatives for the adoption of FRS 5, Application Note G.
- Boots Opticians (BOL) includes LASIK. LASIK sales were £9.5m (2003 £16.0m) with an operating loss of £(3.8)m (2003 £(1.4)m).
- Includes sales of £13.7m (2003 £nil) from the sale of a development property in the year with a profit of £2.2m.

## **Boots The Chemists**

	<b>2003/04</b> <b>£m</b>	<b>2002/03</b> <b>£m</b>
Sales	4,475.7	4,283.4
Total Growth	4.5%	5.2%
Like for like growth	3.9%	4.8%
Operating Profit	531.1	568.4
Operating Margin	11.9%	13.3%

During the year the Accounting Standards Board issued additional guidance to FRS5 in the form of Application Note G: Revenue Recognition. The impact of Boots The Chemists is to reduce sales by £2.6m (2003 £1.0m) and operating profit by £0.1m (2003 £0.2m)

### **Sales were up 4.5% or 3.9% on a like for like basis.**

**Healthcare sales at £1.8bn were up 6.0%.** Dispensing benefited from updated pharmacies and from the rolling introduction of SmartScript. The TV advertising of our Prescription Collection Service, contributed to a 17% increase in usage in quarter 4. Over the counter medicine sales were helped by a strong hay fever season last summer and continued growth in vitamins and supplements where we are running an ongoing 3 for 2 promotion.

**Sales in Beauty and Toiletries, just short of £2bn were up 4.7%** with premium cosmetics up 10% on the back of strong seasonal gift sales and wider distribution through the chain. Fragrance sales benefited from major new launches. Toiletries shows very modest growth over the year. However, many of the reductions in Lower Prices You'll Love were in this category. There have been good volume increases from lower prices but overall a neutral sales impact. Sunshop had a particularly strong year with sales up 17%.

**Lifestyle sales of £677m were the same as last year, which** is substantially better than recent years' performance. The photography market continues to evolve and traditional development business was down 12% and overall down 6%. Actions on many fronts aimed at converting customers to digital cameras and processing are beginning to bear fruit. Baby performed well with bigger ranges in larger stores and good growth in baby food and milk where prices were reduced. Food sales benefited from the Shapers relaunch in quarter 4, which has gone well.

## **Progress in modernising Boots The Chemists**

### **Modern**

**Continued work on the retail basics** saw convenience for customers improved with the introduction of longer **opening hours** and Sunday opening in a further 190 stores since Christmas.

Work continued to improve the convenience of the pharmacy dispensing business for both walk in and repeat customers. 192 dispensaries were modernised in the year. This speeds up the time it takes to dispense a prescription and allows the pharmacist to spend more time with each customer.

**Clearer signage** was introduced in February to help customers navigate the wide range of products found in store. The roll-out of new tills now sees 6,500 in 500 stores to make it easier for people to pay and help reduce queue lengths.

**19 new Edge of Town stores** were opened in the year and plans agreed to open another 40 in the current year. Boots also plans for 10 additional stores in health centres and 10 in other locations. Existing large stores will see work to extend ranges and intensify the offer including new beauty halls and bigger baby ranges.

### **Competitive**

**Making Boots more competitive continues to be addressed** with more planned for the current year. To maintain the competitive advantage held through having expert people who know how to meet the needs of customers, stores were given a £3m fund in quarter 3 to help them increase resource in the stores and this was rolled through into this year.

The opportunity offered by **products only available at Boots** was demonstrated in the year through the successful relaunch of own brands such as Shapers and the introduction of the Atkins range of foods. Improved 5\* protection ranges in Soltan and a new deal to provide new and exclusive Hackett toiletries are growing evidence of Boots innovating and building on exclusive areas.

**Improving the value for money offered by Boots** saw Lower Prices You'll Love accelerated and extended to around 2,000 products which were reduced in price by an average of 18%. Gross margins were down by 30 bps in the year, in line with guidance given in the second half of the year, as a result of the acceleration of lower prices and the change in the reimbursement price of four generic prescription medicines. The full year effect in 2004/05 of these elements is anticipated to be 60 bps with extension of Lower Prices You'll Love expected to have a further effect next year of around 50 bps. The Advantage Card continued to prove attractive to customers with over 9.8m active cardholders.

**The work to improve efficiency continues** to help build on the growth delivered by meeting the customer demands for convenience and value. Getting in Shape underpins all of Boots The Chemists initiatives and continues to make good progress towards a head office of half its original size. Around 1,000 people have volunteered for redundancy under the January reorganisation which is more than expected. This has resulted in £16m rationalisation costs brought forward due to acceleration of voluntary redundancy. This is a timing issue which will benefit costs for 2004/05.

**Planned systems upgrade are progressing well** under the Making IT Easy programme which will impact all parts of the business. It will enable new financial systems to provide better management information and replacement of our merchandise planning and management systems will help with space and range planning and the

tailoring of inventories by store. This programme will take two more years to complete with the high point of change in this year.

**Supply chain changes are also under way** with the year seeing a deal agreed with Unipart to outsource the operations of one of the major warehouses. This is part of the wider work on improving supply chain which continue in the coming year. This will allow us to maintain availability and reduce inventory. Stock will arrive sorted by category and ready to go to shelf, improving store productivity.

### **2004/05 Investment**

Boots The Chemists intends to continue its investment programme to make it more modern, competitive and efficient. In total it expects to invest £390m in this programme in 2004/05:

	<b>2004/05</b>	
	<b>Revenue £m</b>	<b>Capital £m</b>
<b>Modern</b>		
Convenience	19	7
Faster Pharmacy	12	21
Right Places	31	69
Right Stores	38	71
	100	168
 <b>Competitive</b>		
Only at Boots	10	26
 <b>Efficient</b>		
Making IT Easy	26	45
Store Friendly Supply Chain	4	11
	30	56
	<b>140</b>	<b>250</b>

This investment will result in a full year recurring cost of £130m.

### **Operating Profit**

**Operating profit declined by 6.6%** to £531.1m which is more than fully accounted for in the charge of £59m relating to Head Office reorganisation costs within the Getting in Shape programme.

### **Outlook**

**2004/05 is a year of high activity across many areas of the business.** Although not without significant implementation risk, Boots The Chemists is confident it will continue to build the foundation for profitable growth.

Sales growth is expected to be at a similar level to 2003/04 but to improve during the year as space expands. The work on providing value at Boots will impact gross margin percentages by around one percent. Underlying costs are expected to be flat on 2003/04 but higher costs are likely to be incurred due to expansion and increased pension contributions.

It is anticipated the overall impact will be to reduce operating margins by around one percent.

**In 2005/06 markets are expected to continue to grow and that Boots The Chemists will continue to improve its competitive position.** Faster sales growth is expected and although the impact of price reductions in 2004/05 will roll through into the year it is too early to predict with certainty but gross margins are expected to stabilise. Getting in Shape and other work will improve cost efficiency. Strong recovery is anticipated as Boots The Chemists begins to get operating leverage back into the business.

### **Boots Healthcare International**

	<b>2004</b> £m	<b>2003</b> £m
Sales	504.6	460.4
Total Growth	9.6%	13.0%
Comparable Growth	7.8%	12.3%
Operating Profit	80.6	70.1
Operating Margin	16.0%	15.2%

**Sales in Boots Healthcare International grew by 9.6% (7.8% in local currency)** with all major brands delivering sales growth.

**On a local currency basis Nurofen sales up 15%** with strong growth in Australia, up over 50%. UK pharmacy and grocery market share grew by 160 bps from successful launches of Nurofen Migraine and continued good performance from other new products.

**Clearasil was up 6%** ahead in the year but in the US, its biggest market, sales were down 3%. This was due to substantial pipeline fill in 2002/03 and in fact brand share is up 100 bps. In the UK, the Total Control launch helped sales to increase by 7%.

**Strepsils sales increased by 9%** with good performances across its many territories.

**Dermo-cosmetics was up 6%** in the year driven by good growth in the UK and Spain.

**Operating profit increased by 15%** to £80.6m.

### **Boots Opticians and Dentalcare**

	<b>2004</b> <b>£m</b>	<b>2003</b> <b>£m</b>
Sales	241.6	258.6
Total Growth	-6.6%	13.0%
Like for like growth	-5.0%	3.4%
Operating Loss	(5.1)	(30.9)
Operating Margin	-2.1%	-11.9%

Included in the above are the following results for Dentalcare:

	<b>2004</b> <b>£m</b>	<b>2003</b> <b>£m</b>
Sales	23.7	21.6
Total Growth	9.7%	63.6%
Operating Loss	(16.1)	(23.2)

**Sales in Boots Opticians were affected by the very competitive markets** in core optics with LASIK still suffering from the effects of negative publicity on the effects of laser treatment.

**Operating profit in core optics grew by 65%** to £12.8m through improved cost management.

**Sales in Dentalcare were up 9.7%** following the changes to the operating model introduced in 2003. Patient numbers increased by over 50% and revenue per dentist by over 55%. Operating losses overall reduced by 30.7% to £16.1m.

### **Boots Retail International**

	<b>2004</b> <b>£m</b>	<b>2003</b> <b>£m</b>
Sales	43.0	37.0
Total Growth	16.1%	-8.2%
Comparable Growth	20.8%	-5.4%
Operating Loss	(10.4)	(22.3)
Operating Margin	-24.2%	-60.3%

**Sales in Boots Retail International rose by 16.1%** (20.8% in local currency) to £43.0m. 17 new implants were opened in Taiwan and 15 in Hong Kong. Like for like sales in Thailand were up 16%.

**Operating losses halved** to £10.4m, and the Far East region is now at break even. The business recently began small implant trials in the US with two retail partners.

### **Group & Other**

	<b>2004</b> <b>£m</b>	<b>2003</b> <b>£m</b>
Sales	91.5	79.8
Sales Growth	14.7%	6.7%
Operating loss	(46.1)	(66.2)

Sales growth of £11.7m is attributable to the sale of the group's last development property in the year.

Operating loss fell by £20.1m. The process of running down the Airdrie manufacturing plant and of transferring production to other factories continued in the year. The costs were £5m compared with £12m in the previous year. Other corporate costs fell by £13m in the year.

### **Cost Reduction Programme**

**The Getting in Shape programme is delivering ahead of the £100m target of savings** with an expectation of delivering £130m of savings in 2005/06 from actions already announced and 2,700 people will leave the business by then.

**The Head Office reorganisation announced in January has proceeded faster than expected** and has seen the transfer of £16m of cost from 2004/05 to 2003/04.

**The company is committed to continuing to improve efficiency** and will continue to explore other ways of reducing costs. This is likely to result in further head count reductions.

### **Financing and Share Buyback Programme**

**The Company is committed to maintaining a strong balance sheet** and a review of the efficiency of the balance sheet has been completed and has identified some clear steps forward.

**Surplus share capital has been identified and a £700m return of surplus cash to shareholders over the next two years** through share buybacks is planned. This is viewed as a prudent and demonstrates the determination to deliver the growth plans for Boots in a focussed and disciplined way.

**£350m will be returned in 2004/05** but clearly the second tranche will depend upon the performance of the business and its generation of net cash flow.

**A 4.2% dividend increase for the year to 29.8p** and the company confirms its commitment to maintain progressive dividend returns and to continue to return surplus cash to shareholders

**Group free cashflow was £427m** in the year after funding £194m of fixed asset purchases and a £48m increase in working capital, principally to fund extra stock supporting new stores and higher sales in Boots The Chemists.

**Net debt at the end of the year has risen by £97m to £149m** after the return of a further £260m to shareholders through the share buyback programme.

### **Exceptional Items**

Exceptional items for 2003/04 were:

	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
Profit on disposal of fixed assets	32.5	5.1
Provision for closure of operations	3.9	(34.5)
Disposal of Halfords business	-	(123.2)
	<hr/>	<hr/>
	36.4	(152.6)
Exceptional Interest – closure of interest rate swaps	-	92.1
	<hr/>	<hr/>
	36.4	(60.5)

### **Pension Fund**

**The P&L cost of the pension fund is expected to increase by £40m in 2004/05**, in line with the guidance given in March. This is principally as a result of the roll-off of the amortisation of previous surpluses, and the movement in real bond yields in the three years since the last actuarial valuation.

**The pension fund remains strong**, but to better match long term liabilities, the Pension Fund Trustees have decided to switch a small proportion, around 15%, of the fund's assets into asset classes other than bonds.

BOOTS GROUP PLC  
PRELIMINARY RESULTS

**GROUP PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2004**

	Notes	Total 2004 £m	Total <sup>1</sup> 2003 £m
<b>Turnover</b>			
<b>Turnover from continuing operations</b>		<b>5,326.4</b>	5,087.5
<b>Discontinued operation</b>		-	234.9
<b>Turnover: group and share of joint ventures</b>	1	<b>5,326.4</b>	5,322.4
Less: share of joint ventures' turnover		(1.4)	(2.1)
<b>Group turnover</b>		<b>5,325.0</b>	5,320.3
<b>Operating Profit</b>			
<b>Operating profit from continuing operations</b>		<b>551.2</b>	532.3
<b>Discontinued operation</b>		-	22.5
<b>Group operating profit</b>		<b>551.2</b>	554.8
Share of operating loss of joint ventures		(1.1)	(13.2)
Total operating profit including share of joint ventures	2	<b>550.1</b>	541.6
Profit on disposal of fixed assets	3	<b>32.5</b>	5.1
Provision for loss on closure of operations	3	<b>3.9</b>	(34.5)
Loss on disposal of business	3	-	(123.2)
<b>Profit on ordinary activities before interest and taxation</b>	2	<b>586.5</b>	389.0
Net interest (payable) / receivable and similar items <sup>2</sup>	4	<b>(5.5)</b>	103.4
<b>Profit on ordinary activities before taxation</b>		<b>581.0</b>	492.4
Tax on profit on ordinary activities	5	<b>(167.7)</b>	(191.9)
<b>Profit on ordinary activities after taxation</b>		<b>413.3</b>	300.5
Equity minority interests		<b>(0.7)</b>	(0.5)
<b>Profit for the financial year attributable to shareholders</b>		<b>412.6</b>	300.0
<b>Dividends paid and proposed</b>	6	<b>(226.3)</b>	(230.7)
<b>Retained profit for the financial year</b>		<b>186.3</b>	69.3
<b>Basic earnings per share</b>	7	<b>52.9p</b>	35.8p
<b>Basic earnings per share before exceptionals</b>	7	<b>48.2p</b>	45.0p
<b>Diluted earnings per share</b>	7	<b>52.8p</b>	35.7p
<b>Diluted earnings per share before exceptionals</b>	7	<b>48.0p</b>	44.9p
<b>Dividends per share</b>	6	<b>29.8p</b>	28.6p

<sup>1</sup> Restated on adoption of FRS5 application note G on Revenue Recognition

<sup>2</sup> 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 31<sup>ST</sup> MARCH 2004**

	2004 £m	2003 <sup>1</sup> £m
<b>Profit for the financial year attributable to shareholders</b>	<b>412.6</b>	300.0
Revaluation of investment properties	-	17.1
Currency translation differences on foreign currency net investments	<b>(14.8)</b>	7.5
<b>Total recognised gains and losses for the year</b>	<b>397.8</b>	324.6
Prior Year Adjustment in respect of adoption of FRS5 application note G on revenue recognition	<b>(30.0)</b>	
<b>Total recognised gains and losses since the last annual report</b>	<b>367.8</b>	

**NOTE ON HISTORICAL COST PROFITS AND LOSSES  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2004**

	2004 £m	2003 <sup>1</sup> £m
<b>Reported profit on ordinary activities before taxation</b>	<b>581.0</b>	492.4
Realisation of property revaluation surpluses	<b>15.0</b>	10.2
Difference between historical cost depreciation charge and actual charge for the year calculated on revalued amounts	<b>1.1</b>	1.0
<b>Historical cost profit on ordinary activities before taxation</b>	<b>597.1</b>	503.6
<b>Historical cost profit retained</b>	<b>202.4</b>	80.5

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2004**

	2004 £m	2003 <sup>1</sup> £m
<b>Total recognised gains and losses for the year</b>	<b>397.8</b>	324.6
Dividends	<b>(226.3)</b>	(230.7)
New share capital issued (net of expenses)	<b>0.3</b>	(0.3)
Repurchase of shares	<b>(259.9)</b>	(462.8)
Goodwill released on disposal of businesses	-	349.3
<b>Net decrease in shareholders' funds</b>	<b>(88.1)</b>	(19.9)
Opening shareholders' funds	<b>1,969.4</b>	1,989.3
<b>Closing shareholders' funds</b>	<b>1,881.3</b>	1,969.4

<sup>1</sup> Restated on adoption of FRS5 application note G on Revenue Recognition

**BOOTS GROUP PLC  
PRELIMINARY RESULTS**

**GROUP BALANCE SHEET  
31<sup>ST</sup> MARCH 2004**

	2004 £m	2003 <sup>1</sup> £m
<b>Fixed assets</b>		
Intangible assets	281.5	301.3
Tangible assets	1,499.4	1,516.5
Other investments	74.7	84.7
	<b>1,855.6</b>	1,902.5
<b>Current assets</b>		
Stocks	690.8	638.6
Debtors falling due within one year	516.0	536.6
Debtors falling due after more than one year	165.9	114.0
Current asset investments and deposits	239.1	293.1
Cash at bank and in hand	110.5	203.4
	<b>1,722.3</b>	1,785.7
<b>Creditors:</b> Amounts falling due within one year	<b>(1,135.3)</b>	(1,155.6)
<b>Net current assets</b>	<b>587.0</b>	630.1
<b>Total assets less current liabilities</b>	<b>2,442.6</b>	2,532.6
<b>Creditors:</b> Amounts falling due after more than one year	<b>(382.9)</b>	(401.8)
<b>Provisions for liabilities and charges</b>	<b>(177.2)</b>	(160.9)
<b>Net assets</b>	<b>1,882.5</b>	1,969.9
<b>Capital and reserves</b>		
Called up share capital	193.9	203.5
Share premium account	0.3	-
Revaluation reserve	244.2	260.3
Capital redemption reserve	15.2	5.6
Merger reserve	310.8	310.8
Profit and loss account	1,116.9	1,189.2
<b>Equity shareholders' funds</b>	<b>1,881.3</b>	1,969.4
<b>Equity minority interests</b>	<b>1.2</b>	0.5
	<b>1,882.5</b>	1,969.9

<sup>1</sup> Restated on adoption of FRS5 application note G on Revenue Recognition

**BOOTS GROUP PLC  
PRELIMINARY RESULTS**

**GROUP CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2004**

	Notes	2004 £m	2003 £m
<b>Cash inflow from operating activities</b>	8	<b>637.8</b>	582.3
Returns on investment and servicing of finance (#)		<b>(22.6)</b>	75.0
Taxation		<b>(166.2)</b>	(196.7)
Purchase of fixed assets		<b>(194.2)</b>	(145.8)
Disposal of fixed assets		<b>149.6</b>	118.6
Disposal of own shares		<b>2.3</b>	3.1
Acquisitions and disposals	8	<b>(2.2)</b>	358.1
Equity dividends paid		<b>(229.1)</b>	(238.3)
<b>Cash inflow before use of liquid resources and financing</b>		<b>175.4</b>	556.3
Management of liquid resources		<b>53.5</b>	15.8
Financing	8	<b>(281.2)</b>	(511.8)
<b>(Decrease) / increase in cash in the year</b>		<b>(52.3)</b>	60.3

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

# Prior year includes exceptional interest received of £53.8m.

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2004**

	Notes	2004 £m	2003 £m
<b>(Decrease)/increase in cash in the year</b>		<b>(52.3)</b>	60.3
Cash (inflow) from change in liquid resources		<b>(53.5)</b>	(15.8)
Cash outflow from change in borrowings and lease financing	8	<b>16.9</b>	46.0
<b>Movement in net debt resulting from cash flows</b>		<b>(88.9)</b>	90.5
Finance lease additions		<b>(4.2)</b>	(1.8)
Increase in value of investment in 10.125% bond 2017		-	5.8
Currency and other non-cash adjustments		<b>(3.9)</b>	0.3
<b>Movement in net debt during the year</b>		<b>(97.0)</b>	94.8
Opening net debt		<b>(51.5)</b>	(146.3)
<b>Closing net debt</b>		<b>(148.5)</b>	(51.5)

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

## NOTES ON RESULTS

### 1. Turnover by business segment

	Notes	2004 £m	2003 <sup>1</sup> £m
<b>Continuing operations:</b>			
Health		1,806.7	1,704.5
Beauty and Toiletries		1,992.5	1,902.4
Lifestyle		676.5	676.5
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Boots The Chemists		4,475.7	4,283.4
Boots Opticians and Dentalcare		241.6	258.6
		4,717.3	4,542.0
Boots Healthcare International	a	476.0	430.1
Boots Retail International	b	41.6	35.6
Group and other	c	91.5	79.8
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<b>Continuing operations</b>		<b>5,326.4</b>	<b>5,087.5</b>
<b>Discontinued operation – Halfords</b>		<b>-</b>	<b>234.9</b>
<hr/>			
<b>Turnover: group and share of joint ventures</b>		<b>5,326.4</b>	<b>5,322.4</b>

#### Notes

- a) Boots Healthcare International also made inter-segmental sales of £28.6m (2003 £30.3m)
- b) Boots Retail International also made inter-segmental sales of £1.4m (2003 £1.4m)
- c) Group and other includes Boots Manufacturing third party sales of £68.4m (2003 £68.1m)

<sup>1</sup> Restated on adoption of FRS5 application note G on Revenue Recognition

#### Impact of FRS5 Changes – Revenue Recognition

During the year, the Accounting Standards Board issued additional guidance to FRS5 in the form of Application Note G: Revenue Recognition.

The overall impact on the Boots Group PLC is to reduce turnover by £5.0m (2003 £4.9m) and operating profit by £1.4m (2003 £2.5m). There is a prior year adjustment of £30.0m to reserves at 31<sup>st</sup> March 2003 as a result of these changes. Comparatives have been restated.

## 2. Profit before interest and taxation by business segment

	Notes	Before exceptional items 2004 £m	Total 2004 £m	Before exceptional items <sup>1</sup> 2003 £m	Total <sup>1</sup> 2003 £m
<b>Continuing operations:</b>					
Boots The Chemists	a	531.1	523.8	568.4	566.4
Boots Opticians and Dentalcare		(5.1)	(1.1)	(30.9)	(66.3)
		<b>526.0</b>	<b>522.7</b>	537.5	500.1
Boots Healthcare International		80.6	80.6	70.1	70.1
Boots Retail International		(10.4)	(10.4)	(22.3)	(22.3)
Group and other	b	(46.1)	(6.4)	(66.2)	(58.2)
<b>Continuing operations</b>	c	<b>550.1</b>	<b>586.5</b>	519.1	489.7
<b>Discontinued operation – Halfords</b>		-	-	22.5	(100.7)
<b>Profit before interest and taxation</b>		<b>550.1</b>	<b>586.5</b>	541.6	389.0

### Notes

a) Boots the Chemist included an operating loss in respect of Digital Wellbeing Ltd of £3.2m (2003 £14.7m).

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

c) Costs of £66.0m have been included in the current year for the rationalising of head office, as part of the Getting In Shape programme.

<sup>1</sup> Restated on adoption of FRS5 application note G on Revenue Recognition

### 3. Exceptional items

	2004	2003
	£m	£m
<b>Profit on disposal of fixed assets - continuing</b>	<b>32.5</b>	5.1
Provision for loss on closure of operations (continuing)	<b>3.9</b>	(34.5)
Loss on disposal of business (discontinued)		(123.2)
<b>Total exceptional items before interest and taxation</b>	<b>36.4</b>	(152.6)
Attributable tax credit	<b>0.6</b>	11.1
	<b>37.0</b>	(141.5)

Provision for loss on closure of operations in the prior year relates to the withdrawal from certain Wellbeing Services.

As detailed in note 4 an exceptional interest credit of £92.1m arose in the year to 31<sup>st</sup> March 2003, the tax on which was £27.6m.

### 4. Net interest (payable)/receivable and similar items

	2004	2003
	£m	£m
Interest payable and similar charges:		
Bank loans and overdrafts	<b>(6.2)</b>	(7.9)
Other loans	<b>(18.1)</b>	(23.9)
Finance lease charges	<b>(0.7)</b>	(0.9)
Income from interest rate swaps	<b>6.8</b>	22.0
	<b>(18.2)</b>	(10.7)
Interest receivable and similar income	<b>13.2</b>	16.6
Increase in value of investment in 10.125% bond 2017	-	5.8
Share of interest of joint ventures	<b>(0.5)</b>	(0.4)
<b>Net interest (payable)/receivable and similar items before closure of interest rate swaps</b>	<b>(5.5)</b>	11.3
Exceptional interest on closure of interest rate swaps	-	92.1
<b>Net interest (payable) / receivable and similar items</b>	<b>(5.5)</b>	103.4

Interest payable and similar charges includes interest payable on the 10.125% bond 2017 of £nil (2003 £5.8m) and Eurobond of £16.5m (2003 £16.5m). The 10.125% bond 2017 was redeemed on 25<sup>th</sup> June 2002. Following redemption there is no further impact on the profit and loss account.

## 5. Tax on profit on ordinary activities

	2004 £m	2003 <sup>†</sup> £m
Current tax	116.3	207.3
Relief for overseas taxation	(4.1)	(6.6)
	112.2	200.7
Overseas taxation	16.7	15.6
Total current tax charge for the year	128.9	216.3
Deferred taxation	38.8	(24.4)
	167.7	191.9

### Reconciliation of current tax charge

	2004 £m	2003 <sup>†</sup> £m
Profit on ordinary activities before taxation	581.0	492.4
Tax on profit on ordinary activities at UK standard rate 30%	174.3	147.7
Factors affecting charge for the year:		
Changes in accelerated capital allowances	(4.8)	7.0
Changes in pension fund prepayment	(6.6)	6.3
Other timing differences	(15.6)	4.7
Intangibles amortisation	(6.5)	(4.5)
Disallowable expenses	3.8	19.4
Exceptional items	(11.9)	34.8
Foreign tax charged at higher rates than UK standard rate	1.7	2.5
Prior year adjustments	(5.5)	(1.6)
<b>Total current tax charge for the year</b>	<b>128.9</b>	<b>216.3</b>

<sup>†</sup> Restated on adoption of FRS5 application note G on Revenue Recognition

## 6. Dividends

The directors have proposed a final dividend of 21.0p per share that amounts to approximately £158.6m. If approved the total dividends for the year will be 29.8p per share (2003 28.6p per share). The proposed final dividend if approved will be paid on 20<sup>th</sup> August 2004 to shareholders registered on 11<sup>th</sup> June 2004. 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 23<sup>rd</sup> July 2004.

## 7. Earnings per share

	2004	2003 <sup>1</sup>
Basic earnings per share before exceptional items	48.2p	45.0p
Effect of exceptional items	4.7p	(9.2)p
<b>Basic earnings per share</b>	<b>52.9p</b>	<b>35.8p</b>
Diluted earnings per share before exceptional items	48.0p	44.9p
Effect of exceptional items	4.8p	(9.2)p
<b>Diluted earnings per share</b>	<b>52.8p</b>	<b>35.7p</b>

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

	2004 £m	2003 <sup>1</sup> £m
<b>Earnings</b>		
Earnings for basic and diluted earnings per share calculation before exceptional items	375.6	377.0
Exceptional items (see note 3)	37.0	(77.0)
<b>Earnings for basic and diluted earnings per share calculation</b>	<b>412.6</b>	<b>300.0</b>

<sup>1</sup> Restated on adoption of FRS5 application note G on Revenue Recognition

	2004 million	2003 million
<b>Number of Shares</b>		
Weighted average number of shares used in basic earnings per share calculation	780.0	838.1
Dilutive effect of options	1.7	1.6
<b>Weighted average number of shares used in diluted earnings per share calculation</b>	<b>781.7</b>	<b>839.7</b>

The weighted average number of shares used in basic earnings per share calculation excludes 12.6m (2003 14.6m) 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

	2004 £m	2003 <sup>1</sup> £m
<b>Reconciliation of operating profit to operating cash flows</b>		
Group operating profit	551.2	554.8
Depreciation, amortisation and impairments of fixed assets	136.7	162.8
Loss on disposal of fixed assets	3.4	5.5
Increase in working capital	(47.5)	(130.3)
Other non-cash movements	11.3	(2.4)
Net cash inflow before expenditure relating to exceptional items	655.1	590.4
Exceptional operating cash flows (see below)	(17.3)	(8.1)
<b>Cash inflow from operating activities</b>	<b>637.8</b>	<b>582.3</b>
<b>Exceptional operating cash flows</b>		
Restructuring and integration costs paid	(17.3)	(8.1)
	(17.3)	(8.1)
<b>Financing</b>		
Capital element of finance lease rental agreements	(5.9)	(8.1)
Decrease in other borrowings	(11.0)	(37.9)
Cash outflow from change in borrowings and lease financing	(16.9)	(46.0)
Issue of ordinary share capital (net of expenses)	0.3	(0.3)
Repurchase of shares	(264.6)	(465.5)
	(281.2)	(511.8)
<sup>1</sup> Restated on adoption of FRS5 application note G on Revenue Recognition		
<b>Acquisitions and disposals</b>		
Acquisition of businesses	(1.1)	(1.2)
Disposal of businesses	-	396.0
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
Costs of disposals paid	-	(8.6)
Investment in joint ventures	(1.1)	(9.3)
Repayment of loan by joint venture	-	1.1
	(2.2)	358.1

## 9. 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 £28m (2003 £31m). Total pension costs including other UK schemes and overseas arrangements are £34m (2003 £36m).

The scheme surplus under SSAP24 at the last valuation in 2001 was £0.3bn. The triennial actuarial valuation, as at April 2004, is in progress.

FRS17, the UK pensions standard, discounts pension commitments, including salary growth, at an AA bond yield. The value of liabilities at 31<sup>st</sup> March 2004 was £2,894m (2003 £2,540m) and the market value of assets was £2,836m (2003 £2,694m), giving a pension scheme deficit of £58m (2003 £154m surplus), before tax.

The service or operating cost of the scheme for the current year under FRS17 is £88m (2003 £78m). The cost after finance income is £98m (2003 £83m).

## 10. Other information

The preliminary figures for the financial year ended 31<sup>st</sup> March 2004 together with the corresponding amounts for 2003 are not the statutory accounts of the company for these financial years. Statutory accounts for the previous year have been delivered to the Registrar of Companies, whereas those for the financial year ended 31<sup>st</sup> March 2004 will be delivered to the Registrar of Companies in July 2004. The auditors have reported on the statutory accounts for both financial years; these reports were unqualified and did not contain a statement under section 237 of the Companies Act 1985.

The full report and accounts to which the auditors have issued an unqualified report or the summary financial statement will be posted to shareholders by Friday 18th June 2004. Copies will be available from The Secretary, Boots Group PLC, 1 Thane Road West, Nottingham, NG2 3AA.

The annual general meeting will be held at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London at 11.00 hours on Thursday, 22nd July 2004.

Issued by Boots Group PLC

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