

# News Release



19 May 2005  
PR05010

## PRELIMINARY RESULTS TO 31st MARCH 2005 "Building a Better Boots"

- **Group sales up 2.7% to £5,469 million**
  - Boots The Chemists sales growth 3.8%, 2.4% like-for-like, with volumes up 4.6%
  - Boots Healthcare International sales up 5.8% in local currency with growth from all major brands
- **Profits reflect cost of modernising Boots The Chemists**
  - Group profit before tax and exceptionals down 11.4% to £481 million
  - Earnings per share down 4.8% to 45.7 pence before exceptionals
- **More than £500 million returned to shareholders in the year**
  - Dividend up 1% to 30.1 pence for the year
  - £300 million returned to shareholders through share buyback
  - Commitment to deliver remainder of £700 million programme
- **£288 million capital investment programme**
  - 47 new stores opened with 23 Edge of Town openings including 100th Edge of Town store
  - New tills now operating in all stores – 14,000 tills in total
- **2,000 prices reduced this year as part of 'Lower Prices You'll Love' programme**
  - Over £200 million invested in price cuts under 'Lower Prices You'll Love'
  - 3,300 lines on average 18% cheaper since programme started 2 years ago
  - £30 million worth of better buying benefits realised in the year
- **Focus on Health & Beauty expertise**
  - Investment in pharmacy business delivered best performance for five years
  - Beauty business growing on back of investment in stores
  - Successful relaunches of major brands, No7 and Soltan

Richard Baker, Chief Executive, commented:

“Boots The Chemists has been through a huge amount of change this year as we have delivered our plans to make Boots a more modern, competitive and efficient retailer. We’ve had our biggest store opening programme for years, invested £200 million in prices and delivered significant cost savings.”

“None of this has been easy but despite a competitive environment and a slowdown in spending across the High Street the early signs have been encouraging. We have continued to grow sales, we remain highly profitable, we have served more customers and we have held or grown share in our core markets.”

“Looking ahead the strategy is clear – to build a better Boots. We will focus on our core healthcare market, with all the potential for growth that contains. We will continue to develop products that customers know they can only get from us. We will ensure that we offer value. We will do more to ensure that our stores are modern and attractive. We will continue to focus on expert customer care. Under-pinning all this will be a constant drive for further efficiencies.”

“Trading remains tough and the first few weeks of the new financial year confirms that demand on the High Street remains subdued. We have seen nothing to suggest that we need to change our cautious planning assumptions for sales for the full year. Against this background, further progress will take time but we are making a real difference as we seek to return Boots to sustainable growth and unite it behind a simple aim; to be the ‘The Health and Beauty Expert’.”

## Summary of business performance

For the full year ended 31<sup>st</sup> March 2005<sup>1</sup>

	Sales				Profit before tax		
	2005 £m	2004 £m	% growth	% LFL	2005 £m	2004 £m	% growth
Boots The Chemists	4,651.1	4,479.0	3.8	2.4	470.0	532.6	-11.8
Boots Healthcare International	522.7	504.6	3.6	5.8	87.8	80.6	8.9
Boots Opticians	182.5	199.7	-8.6	-4.7	4.2	12.9	-67.4
Boots Retail International	48.3	43.0	12.3	19.9	(8.2)	(10.4)	21.2
Group and other <sup>2</sup>	67.7	90.1	-24.9		(45.6)	(45.6)	-
Inter-segmental	(30.4)	(30.0)	-1.3		-	-	-
<b>Continuing operations</b>	5,441.9	5,286.4	2.9		508.2	570.1	-10.9
Discontinued operation <sup>3</sup>	28.8	40.0	-28.0		(6.5)	(20.0)	67.5
<b>Total</b>	5,470.7	5,326.4	2.7		501.7	550.1	-8.8
Joint Venture <sup>4</sup>	(1.6)	(1.4)	-14.3		(0.6)	(1.1)	45.5
<b>Group Total</b>	5,469.1	5,325.0	2.7		501.1	549.0	-8.7
Interest					(19.8)	(5.5)	-260.0
<b>Profit before tax and exceptionals</b>					481.3	543.5	-11.4
<b>Profit from continuing operations before tax and exceptionals</b>					488.4	564.6	-13.5
<b>Group profit before tax (after exceptionals)</b>					427.6	579.9	-26.3

Notes:

<sup>1</sup> Profits in the prior year have been restated on adoption of FRS20 'Share-based Payment'

<sup>2</sup> Prior year included sales of £13.7m (2005:£nil) from the sale of development property, with a profit of £2.2m.

<sup>3</sup> Discontinued businesses include LASIK, Dentistry, Chiropody and Laser Hair Removal.

<sup>4</sup> The Joint Venture, Handbag, is a discontinued operation.

## **Boots The Chemists**

	<b>2005</b>	<b>2004</b>
Sales (£m)	4,651.1	4,479.0
Total Growth	3.8%	4.5%
Like for like growth	2.4%	3.9%
Operating Profit (£m)	470.0	532.6
Operating Margin	10.1%	11.9%

### **Sales**

Sales grew 3.8% in total and 2.4% like for like with the contribution from new space playing a significant part in driving sales.

This was achieved after taking account of continued price investment and promotional activity which deflated sales revenue by 4.8%. A further 2,000 prices were reduced in the year as part of 'Lower Prices You'll Love' by an average of 14%. Volume growth was 4.6% helped by new space, extended opening hours, dispensing items growth and the effect of offering better value to customers.

Customers' baskets have reflected the good performance in higher average item value categories such as dispensing and cosmetics. The first half of the year showed a noticeable increase in footfall and transaction numbers but the second half slowdown in consumer confidence did lead to a less marked improvement for the year.

### **Sales and Growth Rates by Category**

	2005		
	Actual	Total	LFL
	£m	%	%
Health	1,862.5	5.0	4.4
Beauty and Toiletries	2,054.7	2.9	0.9
Lifestyle	733.9	3.7	1.6
Total	4,651.1	3.8	2.4

### **Health**

Health sales rose 5.0% with Dispensing sales up 6.1% reflecting the benefits of investment in systems and pharmacies and greater focus in the business. In the year Boots The Chemists dispensed over 94 million items, which equates to over 470 items per minute across its 1,400 stores. This performance has also meant that Boots The Chemists has seen items growth broadly in line with the market, the first time for some years that market share has been held.

The Prescription Collection Service (PCS) grew by 17% and now represents over 750,000 customers. 82 dispensaries were refurbished in the year and 'Smartscrip', our new dispensary system, is now live in over 1,000 stores. The Monitored Dosage Service, the business of providing pre-packaged drugs for easy use by care homes, saw a 12% growth in the year.

Sales of over the counter medicines were up 3.1% driven by growth in Vitamins and Supplements and new product developments.

## **Beauty and Toiletries**

Sales grew by 2.9% in total with continued strong growth in Beauty and Toiletries, especially in premium cosmetics and fragrance. Fragrance sales were up 9.1% helped by a good Christmas performance and new product launches. The relaunch of the No7 range in February has received an encouraging customer response and in the seven weeks since relaunch sales have grown 18%. Premium cosmetics were up 7.6%.

Deflationary pressures in the competitive toiletries market led to a slight decline in the overall value of the market. Sales in Boots The Chemists were up 0.1% and reflect a maintained market share. Over 1,200 toiletries lines were reduced in price in the year and as a result volumes grew 4.3%. Sales were particularly strong in skincare, up 4.4%, helped by the launch of ROC and Regenerist. Men's toiletries volumes also grew strongly with the successful launch of Gillette M3 Power and L'Oreal Expert. Dental sales benefited from a continued growth in tooth whitening. While sales in Suncare were lower due to the poor summer, a substantially improved product offer and the relaunched Soltan range resulted in market share gains.

## **Lifestyle**

Sales in Lifestyle categories were up 3.7% overall. Baby, helped by extended specialist departments in an additional 172 new stores and new products, grew 6.8%. The introduction of a wider clothing offer led to a 34% rise in childrenswear sales. Over 400 prices were reduced in the baby category reflecting the competitive offer on baby consumables.

Food sales were up 5.2% aided by the launch of the Delicious range, the continued good performance of the Shapers range and the meal deal.

Photo sales were down 8%. Within this, traditional processing was down 25% but market share increased by over 3%. Digital processing grew 274% with digital photo kiosks in over 1,100 stores and all 550 minilabs now able to deal with digital processing.

## **Operating Profit**

Gross margin was down 80 basis points in the year. Lower prices and the promotional programme reduced gross margin in the year by 260 basis points. Within this, the effect of Lower Prices You'll Love was 150 basis points. The effect of the lower prices was offset by improved sourcing and sales mix including new product launches and the benefits of greater manufacturing efficiencies contributing to lowering the cost of own goods.

Boots The Chemists operating costs were up 7.4% in the year reflecting the costs of renewing the operating infrastructure of the business and adding space on the Edge of Town. Underlying costs were tightly controlled with the benefits from Getting in Shape and other productivity improvements offsetting inflation and the costs of selling higher volumes.

Capital expenditure for the Group was £288 million in the year with a depreciation charge of £146 million. Within this, capital expenditure in Boots The Chemists was £225 million with a depreciation charge of £100 million.

For 2005/06 it is anticipated that capital expenditure will be lower with spend expected to be around £200 million for the Group and around £150 million for BTC as investment plans are considered against a tougher trading environment. These are expected to be the typical levels of capital expenditure in the medium term. Depreciation is expected to increase to £190 million for the Group and £130 million for BTC.

Operating profit for the year of £470 million reflects the work undertaken to build a better Boots as well as the decline in consumer confidence experienced in the second half.

## **Building a Better Boots**

There has been much progress in the past year on the work to build a better Boots by making it more modern, competitive and efficient.

### **Modern**

Boots has had its biggest store-opening programme for years as it has sought to increase its convenience for customers. 47 new stores were opened in the year with 23 on the Edge of Town, 10 new community chemists, 7 new travel and convenience stores and 7 other stores including 5 bought by Boots as part of the acquisition of the Frost Chemist chain in Birmingham. Edge of Town now represents 15% of total space and continues to be our largest growing store category. Opening hours have also been modified to move Boots away from stores that were open at its convenience not the customers. Over the past year 400 more stores opened on Sundays and bank holidays, while in many other stores opening hours were extended to better reflect local trading conditions. 293 of our largest stores received improved baby and photo departments in the year and over 100 received new dispensaries or beauty halls.

### **Competitive**

Boots has addressed the issue of uncompetitive pricing with over 3,300 prices reduced since the introduction of Lower Price You'll Love, whilst managing margin better than expected. This has been achieved by the successful management of pricing and the promotional mix. Boots The Chemists competitive position has also been improved by focusing on its areas of traditional strength. There has been a concerted effort to put the 'Chemist back into Boots' and the result has been apparent with the best pharmacy performance in five years.

In Beauty there has been investment to strengthen the offer. In the course of the year 72 new premium accounts opened, 24 beauty halls were refurbished, 178 new fragrance display units were installed and new self-selection cosmetic fixtures put in 198 stores.

### **Efficient**

All stores now have new tills and 100 stores now have radio frequency technology to allow them to manage stock more efficiently. The backbone core systems upgrade is three quarters of the way through to completion. The supply chain overhaul is more than 80% complete, with the move to daily deliveries now complete.

## **Building a better Boots - The next phase**

Going forward the strategy for Boots The Chemists is clear. There will be continued focus on the core healthcare market with all the potential growth that it contains. There will be continued development of products that customers can only get at Boots. Prices will remain competitive. Stores will be improved to ensure they are modern and attractive and in the places where people want to shop. Expert customer care will continue to be at the heart of the Boots The Chemists while at the core of the business there will be a continued drive for further efficiencies.

### **Outlook**

Boots The Chemists remains cautious about the trading environment. As indicated in the pre-close trading update issued in April, the planning assumptions for 2005/06 are LFL sales growth of 0% to 2% with a further 2% contribution expected from new space.

Gross margin is expected to remain broadly stable with continued investment in price offset by savings achieved through better sourcing.

Costs are expected to increase by 6% largely due to the continued investment in infrastructure and new space.

## **Boots Healthcare International**

	<b>2005</b>	<b>2004</b>
Sales (£m)	522.7	504.6
Total Growth	3.6%	9.6%
Comparable Growth	5.8%	7.3%
Operating Profit (£m)	87.8	80.6
Operating Margin	16.8%	16.0%

Sales were up 5.8% at comparable rates and up 3.6% in sterling. A high level of brand investment was maintained at 27% of sales and operating profit grew 8.9%, 12.7% in local currency.

Sales of all major brands performed well with Nurofen up 8.1%, Strepsils up 9.3% and Clearasil up 6.0% at comparable rates.

## **BHI Sale**

The process to sell BHI is on track. It is anticipated that the sale will be tax efficient for the Group although the precise details will depend upon the proceeds received and the structure of the deal. Preparations for the sale are progressing well with the information memorandum expected to be available to potential buyers in early July. The intention remains to return a significant proportion of the proceeds to shareholders.

## **Boots Opticians**

	<b>2005</b>	<b>2004</b>
Sales (£m)	182.5	199.7
Total Growth	-8.6%	-5.9%
Like for like growth	-4.7%	-3.0%
Operating Profit (£m)	4.2	12.9
Operating Margin	2.3%	6.5%

Boots Opticians had a difficult year. Sales fell 8.6% owing to disruption from the exit from dentistry and lower consumer spending on fashion items in the fourth quarter.

The business is being integrated into Boots The Chemists to give greater focus to day-to-day management and to drive efficiency. Operationally the business has introduced more competitive pricing, wider ranges and a greater emphasis on the quality of service.

## **Boots Retail International**

	<b>2005</b>	<b>2004</b>
Sales (£m)	48.3	43.0
Total Growth	12.3%	16.1%
Comparable Growth	19.9%	20.8%
Operating Loss (£m)	(8.2)	(10.4)
Operating Margin	-17.0%	-24.2%

Sales growth of 12.3% helped reduce operating losses by 21.2% on last year with all countries, excluding the USA, now profitable.

In the USA, good progress has been made with the trials in Target and CVS stores and extensions to these trials are planned to gather further information and refine the business model.

### **Group and Other**

	<b>2005</b>	<b>2004</b>
Sales (£m)	67.7	90.1
Sales Growth	-24.9%	14.7%
Operating Loss (£m)	(45.6)	(45.6)

Sales declined by £22.4 million as a result of the sale of development properties in the prior year of £13.7m and a £3.8 million reduction in manufacturing income from third parties.

### **Dividend**

The proposed final dividend is 21.0 pence, the same as last year. The full year dividend is 30.1 pence an increase of 1.0%. The Company remains committed to the stated policy of sustainable dividend growth.

The final dividend will be paid on 5th August 2005, with the ex dividend date on 1st June 2005.

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

Group cash flow (operating cash flow after purchase and disposal of fixed assets) in the year was £232 million reflecting higher capital expenditure and an increase in the group's working capital requirement.

Working capital growth was £118 million against £47 million last year principally due to the redundancy payments made in the year but provided for at 2003/04 year end.

Stock in Boots The Chemists remains at 11 weeks cover, in line with last year, with reductions to stock holdings in back shops offsetting the upward pressure of new store openings and the change in mix to higher average item value products.

In the current year it is expected that further reductions in the back shop holding arising from store friendly supply chain will offset the continued working capital demands from new stores and the growth in dispensing. Working capital remains an important area of focus.

Work continues to make the balance sheet more efficient whilst seeking to maintain a strong investment grade debt rating.

The share buyback programme returned £300 million in the year and the commitment to return the second tranche of the £700 million programme stands. However, given the more subdued trading environment it is expected that this will be done over the next two to three years.

Net debt has increased by £445 million to £594 million. The sale and leaseback of 300 stores continues with completion expected in the summer. The proceeds will be used to pay down short-term borrowings.

## **Exceptional Items**

	<b>2005</b>	<b>2004</b>
	<b>£m</b>	<b>£m</b>
Profit on disposal of fixed assets	3.0	32.5
Provision for closure of operations	(5.4)	3.9
Loss on disposal of business	(51.3)	-
	<u>(53.7)</u>	<u>36.4</u>

Provision for closure of operations in the year relates to the Laser Hair Removal, Chiropody and Nursing Services practices. The loss on disposal of businesses relates to the sale of the Dentistry and Laser Eye businesses to Optical Express Ltd and sale of Handbag.com.

## **Pension Fund**

The pension fund remains strong, with the actuarial valuation showing a deficit of £58 million on an FRS17 basis representing 1.9% of the schemes assets. The majority of liabilities remain well matched by bonds and almost 15% of funds, equivalent to the value of longer term liabilities, are now invested in equities and other assets.

## **International Financial Reporting Standards**

Ahead of adoption of International Financial Reporting Standards (IFRS) for the year ended 31st March 2006, analysis of its impacts has been carried out using March 2005 estimates. This analysis has not yet been audited. After considering the effect of FRS17, the impact on the profit and loss account of IFRS is negligible, whilst the overall impact upon the Balance Sheet will be to increase net assets by £4m. The key impacts are:

- Pension fund deficit will be included on the balance sheet, and the SSAP24 debtor previously reported removed.
- Some leases previously treated as operating leases will be reclassified as finance leases. Lease incentives will be credited over the entire lease life.
- Deferred tax will be provided on revalued buildings, rolled over gains, leases, and brand expenditure.
- Proposed dividends will no longer be provided for in the financial statements

Other smaller changes will be made in respect of financial instruments and site fee income.

	Balance Sheet at 31.03.05			Operating Profit 04/05
	Assets	Liabilities	Net Assets	
	£m	£m	£m	
IAS19 Pensions	(117)	(19)	(136)	(18)
IAS 17 Leases	46	(57)	(11)	5
IAS 12 Deferred Tax	61	(65)	(4)	-
IAS 10 Proposed Dividends	-	150	150	-
Other	4	1	5	2
<b>Total Impact</b>	<b>(6)</b>	<b>10</b>	<b>4</b>	<b>(11)</b>

A detailed breakdown of the impact will be provided in July 2005.

- Ends -

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**BOOTS GROUP PLC  
PRELIMINARY RESULTS**

**GROUP PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31st MARCH 2005**

	Notes	2005 £m	2004 <sup>1</sup> £m
<b>Turnover</b>			
<b>Turnover from continuing operations</b>		<b>5,441.9</b>	5,286.4
<b>Discontinued operations<sup>2</sup></b>		<b>28.8</b>	40.0
<b>Turnover: group and share of joint venture</b>	2	<b>5,470.7</b>	5,326.4
Less: share of joint venture's turnover <sup>2</sup>		<b>(1.6)</b>	(1.4)
<b>Group turnover</b>		<b>5,469.1</b>	5,325.0
<b>Operating profit</b>			
Operating profit from continuing operations		<b>508.2</b>	570.1
Discontinued operations <sup>2</sup>		<b>(6.5)</b>	(20.0)
<b>Group operating profit</b>		<b>501.7</b>	550.1
Share of operating loss of joint venture <sup>2</sup>		<b>(0.6)</b>	(1.1)
<b>Total operating profit including joint venture</b>	3	<b>501.1</b>	549.0
Profit on disposal of fixed assets	4	<b>3.0</b>	32.5
Provision for loss on closure of operations <sup>2</sup>	4	<b>(5.4)</b>	3.9
Loss on disposal of business <sup>2</sup>	4	<b>(51.3)</b>	-
<b>Profit on ordinary activities before interest</b>		<b>447.4</b>	585.4
Net interest and similar items	5	<b>(19.8)</b>	(5.5)
<b>Profit on ordinary activities before taxation</b>		<b>427.6</b>	579.9
Tax on profit on ordinary activities	6	<b>(124.7)</b>	(167.7)
<b>Profit on ordinary activities after taxation</b>		<b>302.9</b>	412.2
Equity minority interests		<b>(0.5)</b>	(0.7)
<b>Profit attributable to shareholders</b>		<b>302.4</b>	411.5
<b>Dividends</b>	7	<b>(216.6)</b>	(226.3)
<b>Profit retained</b>		<b>85.8</b>	185.2
<b>Basic earnings per share before exceptional</b>			
<b>Items</b>	8	<b>45.7p</b>	48.0p
<b>Basic earnings per share</b>	8	<b>40.9p</b>	52.8p
<b>Diluted earnings per share before exceptional</b>			
<b>Items</b>	8	<b>45.7p</b>	47.9p
<b>Diluted earnings per share</b>	8	<b>40.8p</b>	52.6p
<b>Dividends per share</b>		<b>30.1p</b>	29.8p

<sup>1</sup> Restated on adoption of FRS20 'Share-based payment' (see Note 1).

<sup>2</sup> Discontinued operations includes : LASIK, Dentistry, Chiroprody, Laser Hair Removal and Handbag joint venture.

**BOOTS GROUP PLC  
PRELIMINARY RESULTS**

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31st MARCH 2005**

	2005	2004 <sup>1</sup>
	£m	£m
<b>Profit attributable to shareholders</b>	<b>302.4</b>	411.5
Currency translation adjustments	1.5	(14.8)
<b>Total recognised gains and losses relating to the period</b>	<b>303.9</b>	396.7
Prior year adjustment (see note 1)	<b>38.7</b>	
<b>Total recognised gains and losses</b>	<b>342.6</b>	

**NOTE ON HISTORICAL COST PROFITS AND LOSSES  
FOR THE YEAR ENDED 31st MARCH 2005**

	2005	2004 <sup>1</sup>
	£m	£m
<b>Reported profit on ordinary activities before taxation</b>	<b>427.6</b>	579.9
Realisation of property revaluation surpluses	1.3	15.0
Depreciation adjustment	1.0	1.1
<b>Historical cost profit on ordinary activities before taxation</b>	<b>429.9</b>	596.0
<b>Historical cost profit retained</b>	<b>88.1</b>	201.3

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS  
FOR THE YEAR ENDED 31st MARCH 2005**

	2005	2004 <sup>1</sup>
	£m	£m
<b>Total recognised gains and losses relating to the period</b>	<b>303.9</b>	396.7
Dividends	<b>(216.6)</b>	(226.3)
New share capital issued (net of expenses)	<b>2.0</b>	0.3
Exercise of share options and charge for share scheme awards	<b>13.5</b>	11.1
Repurchase of shares	<b>(300.0)</b>	(259.9)
<b>Net decrease in shareholders' funds</b>	<b>(197.2)</b>	(78.1)
Opening shareholders' funds <sup>2</sup>	<b>1,806.6</b>	1,884.7
<b>Closing shareholders' funds</b>	<b>1,609.4</b>	1,806.6

<sup>1</sup> Restated on adoption of FRS20 'Share-based payment' & UITF38 'Accounting for ESOP trusts' (see Note 1).

<sup>2</sup> Originally £1,881.3m at 31st March 2004 before deducting prior year adjustment of £74.7m (see Note 1).

**BOOTS GROUP PLC  
PRELIMINARY RESULTS**

**GROUP BALANCE SHEET  
31st MARCH 2005**

	2005	2004 <sup>1</sup>
	£m	£m
<b>Fixed assets</b>		
Intangible assets	283.4	281.5
Tangible assets	1,593.1	1,499.4
	<b>1,876.5</b>	<b>1,780.9</b>
<b>Current assets</b>		
Stocks	713.6	690.8
Debtors	733.4	681.9
Investments and deposits	19.4	239.1
Cash at bank and in hand	109.4	110.5
	<b>1,575.8</b>	<b>1,722.3</b>
<b>Creditors: amounts falling due within one year</b>	<b>(1,074.1)</b>	<b>(1,135.3)</b>
<b>Net current assets</b>	<b>501.7</b>	<b>587.0</b>
<b>Total assets less current liabilities</b>	<b>2,378.2</b>	<b>2,367.9</b>
<b>Creditors: amounts falling due after more than one year</b>	<b>(588.7)</b>	<b>(382.9)</b>
<b>Provisions for liabilities and charges</b>	<b>(179.0)</b>	<b>(177.2)</b>
<b>Net assets</b>	<b>1,610.5</b>	<b>1,807.8</b>
<b>Capital and reserves</b>		
Called up share capital	182.6	193.9
Share premium account	2.3	0.3
Revaluation reserve	241.9	244.2
Capital redemption reserve	26.5	15.2
Merger reserve	310.8	310.8
Profit and loss account	845.3	1,042.2
<b>Equity shareholders' funds</b>	<b>1,609.4</b>	<b>1,806.6</b>
<b>Equity minority interests</b>	<b>1.1</b>	<b>1.2</b>
	<b>1,610.5</b>	<b>1,807.8</b>

<sup>1</sup> Restated on adoption of FRS20 'Share-based payment' & UITF38 'Accounting for ESOP trusts' (see Note 1).

**BOOTS GROUP PLC  
PRELIMINARY RESULTS**

**GROUP CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31st MARCH 2005**

	Notes	2005 £m	2004 <sup>1</sup> £m
<b>Cash inflow from operating activities</b>	9	<b>514.7</b>	637.8
Returns on investment and servicing of finance		<b>(20.4)</b>	(22.6)
Taxation		<b>(128.8)</b>	(166.2)
Purchase of fixed assets		<b>(303.4)</b>	(194.2)
Disposal of fixed assets		<b>20.5</b>	149.6
Acquisition and disposal of businesses		<b>(9.0)</b>	(2.2)
Equity dividends paid		<b>(225.1)</b>	(229.1)
<b>Cash (outflow)/inflow before use of liquid resources and financing</b>		<b>(151.5)</b>	173.1
Management of liquid resources		<b>219.7</b>	53.5
Financing <sup>1</sup>		<b>(5.9)</b>	(278.9)
<b>Increase/(Decrease) in cash in the period<sup>2</sup></b>		<b>62.3</b>	(52.3)

<sup>1</sup> Financing includes repurchase of shares of £(303.3)m, 12 months to 31st March 2004 £(264.6)m).

<sup>2</sup> Cash is defined as cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT  
FOR THE YEAR ENDED 31st MARCH 2005**

	2005 £m	2004 £m
<b>Increase/(Decrease) in cash in the period</b>	<b>62.3</b>	(52.3)
Cash inflow from change in liquid resources	<b>(219.7)</b>	(53.5)
(Decrease)/Increase in borrowings and lease financing	<b>(287.6)</b>	16.9
<b>Movement in net debt resulting from cash flows</b>	<b>(445.0)</b>	(88.9)
Finance lease additions	<b>(1.5)</b>	(4.2)
Currency and other non-cash adjustments	<b>0.9</b>	(3.9)
<b>Movement in net debt during the period</b>	<b>(445.6)</b>	(97.0)
Opening net debt	<b>(148.5)</b>	(51.5)
<b>Closing net debt</b>	<b>(594.1)</b>	(148.5)

## Notes

### 1. Restatements

#### Impact of UITF 38 'Accounting for ESOP trusts'

During the year, the introduction of UITF 38 by the Accounting Standards Board has affected the treatment of fixed asset investments in own shares in the balance sheet. A prior year adjustment as at 31st March 2004 has been made to reduce fixed asset investments by £74.7m, increase profit and loss reserves by £64.6m and create an Own Shares Reserve in equity of £139.3m. Net assets at 31st March 2004 have been reduced by £74.7m as a result of these changes. Under UITF 38, any impairment in the carrying value of shares held in the QUEST is no longer charged to the Profit and Loss account, and therefore an amount of £39.8m in respect of previous year's impairments has been credited to the Statement of Total Recognised Gains and Losses.

#### Impact of FRS20 'Share-based payment'

The prior year operating profit has been reduced by £1.1m to reflect the impact of the early adoption of FRS20 by Boots. An amount of £1.1m has been charged to the Statement of Total Recognised Gains and Losses in respect of the difference between the share scheme charge calculated on the new basis and that already charged. The impact of these changes on operating profit and net assets in the year to 31st March 2005 is £nil.

All other accounting policies have been applied consistently as described in the 2004 Report and Accounts.

### 2. Turnover by business segment

	2005	2004
	£m	£m
Health <sup>1</sup>	1,862.5	1,773.9
Beauty and Toiletries	2,054.7	1,997.4
Lifestyle <sup>1</sup>	733.9	707.7
Boots The Chemists <sup>1</sup>	4,651.1	4,479.0
Boots Opticians <sup>1</sup>	182.5	199.7
	4,833.6	4,678.7
Boots Healthcare International <sup>2</sup>	494.2	476.0
Boots Retail International <sup>3</sup>	46.4	41.6
Group and Other <sup>4</sup>	67.7	90.1
<b>Continuing operations</b>	<b>5,441.9</b>	<b>5,286.4</b>
<b>Discontinued operations<sup>5</sup></b>	<b>28.8</b>	<b>40.0</b>
<b>Turnover: group and share of joint venture</b>	<b>5,470.7</b>	<b>5,326.4</b>

<sup>1</sup> Prior year restated for transfer of Boots Insurance Services from Boots Opticians to Boots The Chemists and product reclassification including the transfer of Healthcare food from Health to Lifestyle.

<sup>2</sup> Boots Healthcare International also made inter-segmental sales of £28.5m (12 months to 31st March 2004 £28.6m).

<sup>3</sup> Boots Retail International also made inter-segmental sales of £1.9m (12 months to 31st March 2004 £1.4m).

<sup>4</sup> Group and Other consists of the third party manufacturing and in the prior year development properties sales.

<sup>5</sup> Discontinued operations includes : LASIK, Dentistry, Chiropody, Laser Hair Removal and Handbag joint venture.

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

	Before Exceptional items 2005 £m	Total 2005 £m	Before Exceptional items 2004 <sup>1</sup> £m	Total 2004 <sup>1</sup> £m
Boots The Chemists <sup>2</sup>	<b>470.0</b>	<b>471.2</b>	532.6	525.3
Boots Opticians <sup>2</sup>	<b>4.2</b>	<b>4.2</b>	12.9	12.9
	<b>474.2</b>	<b>475.4</b>	545.5	538.2
Boots Healthcare International	<b>87.8</b>	<b>95.3</b>	80.6	80.6
Boots Retail International	<b>(8.2)</b>	<b>(8.2)</b>	(10.4)	(10.4)
Group and Other <sup>3</sup>	<b>(45.6)</b>	<b>(52.2)</b>	(45.6)	(5.9)
<b>Continuing operations</b>	<b>508.2</b>	<b>510.3</b>	570.1	602.5
Discontinued operations <sup>4</sup>	<b>(7.1)</b>	<b>(62.9)</b>	(21.1)	(17.1)
<b>Total operating profit including joint venture</b>	<b>501.1</b>	<b>447.4</b>	549.0	585.4

<sup>1</sup> Restated on adoption of FRS20 'Share-based payment' & UITF38 'Accounting for ESOP trusts' (see Note 1).

<sup>2</sup> Restated for transfer of Boots Insurance Services from Boots Opticians to Boots The Chemists

<sup>3</sup> Group and Other consists of head office and other costs not allocated to business segments.

<sup>4</sup> Discontinued operations includes : LASIK, Dentistry, Chiropody, Laser Hair Removal and Handbag joint venture.

### 4. Exceptional items

	2005 £m	2004 £m
Profit on disposal of fixed assets - continuing <sup>1</sup>	<b>3.0</b>	32.5
Provision for loss on closure of operations	<b>(5.4)</b>	3.9
Loss on disposal of business <sup>2</sup>	<b>(51.3)</b>	-
<b>Total exceptional items before taxation</b>	<b>(53.7)</b>	36.4
Attributable tax credit	<b>17.9</b>	0.6
	<b>(35.8)</b>	37.0

<sup>1</sup> The current year profit is net of a £9.2m loss in respect of the closure of the Airdrie manufacturing facility

<sup>2</sup> Loss on disposal of businesses relates to the Dentistry and LASIK businesses and the sale of the Handbag joint venture

## 5. Net interest and similar items

	2005	2004
	£m	£m
Interest payable and similar charges:		
Bank loans and overdrafts	(8.3)	(6.2)
Other loans	(24.6)	(18.1)
Finance lease charges	(0.5)	(0.7)
Income from interest rate swaps	4.1	6.8
	(29.3)	(18.2)
Interest receivable and similar income	10.1	13.2
Share of joint venture	(0.6)	(0.5)
<b>Net interest payable and similar items</b>	<b>(19.8)</b>	<b>(5.5)</b>

Interest payable and similar charges includes interest payable on the £300m Eurobond of £16.5m (2004 £16.5m) and the €300 Eurobond of £2.4m (2004 £nil.)

## 6. Taxation

	2005	2004 <sup>1</sup>
	£m	£m
Current tax	(102.4)	(116.3)
Relief for overseas taxation	1.1	4.1
	(101.3)	(112.2)
Overseas taxation	(23.1)	(16.7)
Total current tax charge for the year	(124.4)	(128.9)
Deferred taxation	(0.3)	(38.8)
	(124.7)	(167.7)

<sup>1</sup> Restated on adoption of FRS20 'Share-based payment' & UITF38 'Accounting for ESOP trusts' (see Note 1).

## Reconciliation of current tax charge

	2005	2004 <sup>1</sup>
	£m	£m
Profit on ordinary activities before taxation	427.6	579.9
Tax on profit on ordinary activities at UK standard rate 30%	128.3	174.0
Factors affecting charge for the year:		
Changes in accelerated capital allowances	(6.4)	(4.8)
Changes in pension fund prepayment	1.7	(6.6)
Other timing differences	(0.6)	(15.3)
Intangibles amortisation	(4.5)	(6.5)
Disallowable expenses	4.4	3.8
Exceptional items including losses on disposals and closure costs	2.1	(11.9)
Foreign tax charged at higher rates than UK standard rate	4.6	1.7
Prior year adjustments	(5.2)	(5.5)
<b>Total current tax charge for the year</b>	<b>124.4</b>	<b>128.9</b>

<sup>1</sup> Restated on adoption of FRS20 'Share-based payment' & UITF38 'Accounting for ESOP trusts' (see Note 1).

## 7. Dividends

The directors have proposed a final dividend of 21.0p per share that amounts to £150.1m. If approved the total dividends for the year will be 30.1p per share (2004 29.8p per share). The proposed final dividend if approved will be paid on 5th August 2005 to shareholders registered on 3rd June 2005. 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 15th July 2005.

## 8. Earnings per share

	2005	2004 <sup>1</sup>
Basic earnings per share before exceptional items	<b>45.7p</b>	48.0p
Effect of exceptional items	<b>(4.8)p</b>	4.8p
Basic earnings per share	<b>40.9p</b>	52.8p
Diluted earnings per share before exceptional items	<b>45.7p</b>	47.9p
Effect of exceptional items	<b>(4.9)p</b>	4.7p
Diluted earnings per share	<b>40.8p</b>	52.6p

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

	2005	2004 <sup>1</sup>
	£m	£m

### Earnings

Earnings for adjusted basic and diluted earnings per share calculation	<b>302.4</b>	411.5
Exceptional items (see note 4)	<b>35.8</b>	(37.0)
Earnings for basic and diluted earnings per share calculation before exceptional items	<b>338.2</b>	374.5

	2005	2004
	£m	£m

### Number of shares

Weighted average number of shares used in basic earnings per share calculation	<b>739.8</b>	780.0
Dilutive effect of options	<b>1.1</b>	1.7
Weighted average number of shares used in diluted earnings per share calculation	<b>740.9</b>	781.7

<sup>1</sup> Restated on adoption of FRS20 'Share-based payment' & UITF38 'Accounting for ESOP trusts' (see Note 1).

The weighted average number of shares used in basic earnings per share calculation excludes 10.4m (2004 12.6m) of shares held by The Boots ESOP Trust, the QUEST and unappropriated shares held by Boots Share Plan Trustees where the dividends have been waived.

The dilutive effect relates to options under 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.

## 9. Notes to the Group Cash Flow Statement

	2005	2004 <sup>1</sup>
	£m	£m
<b>Reconciliation of operating profit to operating cash flows</b>		
Group operating profit	501.7	550.1
Depreciation, amortisation and impairments of fixed assets	146.3	133.6
Amortisation of own shares	5.1	4.2
Loss on the disposal of tangible fixed assets	2.3	3.4
Increase in working capital	(117.7)	(48.8)
Cash flows relating to provisions	(5.3)	1.3
Other non-cash movements	(3.0)	11.3
Net cash inflow before exceptional items	529.4	655.1
Cash flows from exceptional items	(14.7)	(17.3)
<b>Cash inflow from operating activities</b>	<b>514.7</b>	<b>637.8</b>

<sup>1</sup> Restated on adoption of FRS20 'Share-based payment' & UITF38 'Accounting for ESOP trusts' (see Note 1).

## 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 £54m (2004 £28m). Total pension costs including other UK schemes and overseas arrangements are £61m (2004 £34m).

The scheme surplus under SSAP24 at the last valuation in 2004 was £80m.

FRS17, the UK pensions standard, discounts pension commitments, including salary growth, at an AA bond yield. The value of liabilities at 31st March 2005 was £3,096m (2004 £2,894m) and the market value of assets was £3,013m (2004 £2,836m), giving a pension scheme deficit of £83m (2004 £58m deficit), before tax.

The service or operating cost of the scheme for the current year under FRS17 is £88m (2004 £88m). The cost after finance income is £105m (2004 £98m).

## **11. Other information**

There will be a live audiocast of the presentation to analysts at 0915 hours BST on Thursday 19 May 2005. The slide presentation will be available from 1030 hours BST on the same day. Both can be accessed from the [boots-plc.com](http://boots-plc.com) corporate website.

The preliminary figures for the financial year ended 31st March 2005 together with the corresponding amounts for 2004 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 31st March 2005 will be delivered to the Registrar of Companies in July 2005. 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 Wednesday 23rd June 2005. 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 Albert Hall, North Circus Street, off Derby Road, Nottingham NG1 5AA at 11.00 hours on Thursday, 21st July 2005.

Issued by Boots Group PLC