

# News Release



18 May 2006

## PRELIMINARY RESULTS TO 31 MARCH 2006 Continued delivery on Building a Better Boots

- **Group revenue from continuing operations up 1.9% at £5,027m in a year of significant change**
  - Boots The Chemists (BTC) revenue increased 1.7% to £4,732m
  - BTC Like for Like revenue up 0.6% excluding the impact of PPRS price reductions and calendar effects
  - BTC gross margin and costs delivered in line with planning assumptions
- **Group trading profit\* after finance costs £401m (-9.8% vs £444m last year)**
  - Group trading profit\* from continuing operations after finance costs £316m (-13.9% vs £367m last year), reflecting investment in Building a Better Boots
  - BTC trading profit\* £388m, 15.4% lower as a result of investment in the healthcare and beauty businesses, in new stores and in IT infrastructure
  - Group profit before tax from continuing operations £349m (-3.1% vs £360m last year)
  - EPS based on post-tax trading profit\* from continuing operations 33.9p per share (-3.4% vs 35.1p last year)
  - Final dividend of 21.0p recommended giving 30.1p for full year
- **The Health & Beauty Expert**
  - Dispensed 100m items for the first time, up 5.4%
  - Beauty revenue up 7.9% and best revenue growth for three years in Toiletries
  - 500,000 people signed up to Boots Health Club in first three weeks
  - Advantage Card transactions up 8%, with 2 million new cardholders in the year taking the total to 15 million
- **BHI disposal for £1.9bn benefits shareholders and employees**
  - £1.4bn to shareholders via special dividend of 200p per share following sale of BHI
  - £85m injection into pension fund from BHI sale proceeds
  - £250m investment programme in small stores, supply chain and IT arrangements
- **Merger with Alliance UniChem on course for completion in July 2006**
  - Will create Europe's leading pharmacy-led health and beauty group
  - Completion expected end of July 2006
  - Plans for delivering £100m cost synergies progressing well

\* Trading profit is defined on page 3.

Richard Baker, Chief Executive, commented:

“We have grown our core health and beauty businesses, improved our product range and sharpened our pricing in what has been a tough year for UK retailing

“All this has been achieved while we successfully repositioned the business and focused on our role as the Health and Beauty Expert. We have sold Boots Healthcare International, returned £1.4bn of the proceeds to shareholders and started work on creating an international pharmacy led health and beauty group through the merger with Alliance UniChem.

“We have built a stronger platform to compete. We have differentiated ourselves from the competition and taken long-term decisions to improve our efficiency. We look forward to the merger with great confidence about the exciting opportunities it can deliver for customers, shareholders and employees”

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## Summary of Revenue and Profit

For the year ended 31 March 2006

	Revenue			Profit	
	Total £m	Growth %	% like for like	Total £m	Growth %
<b>Trading Profit*</b>					
Boots The Chemists	4,732.0	+1.7	-0.1	388.4	-15.4
Boots Opticians	174.3	-3.3		(3.5)	
Boots Retail International (a)	57.9	+20.1	+16.5	(1.8)	
Group and Other	64.8	+12.3		(47.2)	-2.2
Inter-segmental	(1.6)				
<b>Trading profit from continuing operations</b>	<b>5,027.4</b>	<b>+1.9</b>		<b>335.9</b>	<b>-17.6</b>
Net finance costs				(20.3)	
<b>Trading profit from continuing operations after finance costs</b>				<b>315.6</b>	<b>-13.9</b>
Non trading items (b)				33.3	
<b>Profit before tax for continuing operations</b>				<b>348.9</b>	<b>-3.1</b>
Income Tax				(44.5)	
<b>Profit after tax from continuing operations</b>				<b>304.4</b>	<b>+19.4</b>
Discontinued operations after tax					
- Boots Healthcare International trading profit before tax (c)				85.3	
- Profit on disposal of Boots Healthcare International				1,402.1	
- Other including tax				(18.1)	
<b>Total discontinued operations</b>				<b>1,469.3</b>	
<b>Profit for the year</b>				<b>1,773.7</b>	
<b>Note:</b>					
<b>Group trading profit after finance costs (d)</b>				<b>400.6</b>	

Basic Earnings per share (pence)	Year to 31 March		
	2006	2005	
Profit for the year	Note 8	259.2p	35.9p
Trading profit after tax and finance costs from continuing operations	Note 8	33.9p	35.1p
<b>Number of shares (million)</b>			
Weighted average number of shares		684.2	739.8
Year end number of shares ranking for dividend		479.4	720.1

\* Trading Profit is used by the Group to measure ongoing operational performance. It is defined as profit before finance costs, excluding items the Directors deem one-off or unusual, and profits/losses on the disposal of non-current assets. The items excluded would otherwise make year on year comparisons difficult and details are fully disclosed.

(a) Like for like growth for Boots Retail International represents revenue growth at comparable exchange rates.

(b) Non trading items includes profit on sale and leaseback of £150m, one-off charges relating to the £250m investment programme announced 14 March of £124m and other one off items, mainly relating to profits on property disposals, of £7m.

(c) Boots Healthcare International results cover the 10 months ended 31 January 2006

(d) Group trading profit of £315.6m comprises trading profit from continuing operations after finance costs and excludes Boots Healthcare International trading profit before tax for the 10 months to 31 January 2006 of £85.3m and other discontinued losses of £(0.3)m.

## Boots The Chemists (BTC)

Revenue (£m)	4,732
Total revenue growth	+1.7%
LFL revenue growth	-0.1%

Trading Profit (£m)	388
Trading Margin	8.2%

### Revenue

Revenue was £4,732m, up 1.7% in total, -0.1% on a strict Like for Like basis but equating to +0.6% on a Like for Like basis excluding the deflationary impact of the Pharmaceutical Price Regulation Scheme (PPRS) price reductions and the timing of Easter. Sales from new space added 1.8% to revenue in the year.

The weaker consumer environment is reflected in same store footfall which was down 3.6% over the year. The decline was broadly consistent across the year. The Advantage Card again demonstrated its importance to the business with linked transactions up 8% as two million new cardholders joined the scheme. 70% of revenue is now linked to the card. The increasing proportion of higher spending cardholders in the sales mix means average transaction value rose by 2.4% to £9.38 over the year.

### Revenue and Growth Rates by Category

	Revenue £m	Total sales growth %
Health	1,909	+2.7
Beauty & Toiletries	2,105	+2.4
Lifestyle	<u>718</u>	<u>-2.5</u>
Total	4,732	+1.7

### Health

The Health business continues to deliver good growth with revenue up 2.7% to £1,909m.

Dispensed items were up 5.4%, in line with the market, with growth driven by the prescription collection service, which was up more than a fifth, and the care homes business. Dispensing revenue was up 2.8% after the impact of price deflation from both PPRS and from the price cuts to generic medicines which anniversaried in September 2005. The impact of the new pharmacy contract which came into force on 1 April 2005 and which moved some funding from generic reimbursement to services has, as expected, been broadly neutral in the year.

Revenue from Over The Counter (OTC) medicines was up 2.4% with a particularly strong performance in the last quarter driven by the Change One Thing campaign which boosted sales of smoking cessation products and vitamins in particular. Higher incidence of coughs and colds over the winter made up for the poor hayfever season last summer.

### Beauty and Toiletries

Revenue in Beauty and Toiletries grew 2.4% to £2,105m.

In Beauty, revenue was up 7.9%, ahead of the market, showing the benefits of the investments made in new beauty halls and relaunching major own brands. Cosmetics revenue was up 8.4% including a 9.7% increase in premium brands aided by the 70 new premium accounts won in the year and good performance by No7, up 13.0% in the twelve months following relaunch, and 17, up 13.0% since relaunch.

Fragrance revenue was up 6.9% with the biggest ever week in the run up to Christmas when takings exceeded £50m.

Toiletries had its best year for three years with revenue up 2.2%. There was a particularly strong performance in Skincare, up 6.9% in the year and 11.0% in the final quarter, following the refreshing of the offer and the introduction of new illuminated shelving in store in January.

A successful promotional campaign over last summer pushed Sun revenue up 11.9% and kept Soltan as the market-leading brand. Personal care and hair care revenue was held back by competitive market conditions.

In total, revenue growth in Toiletries was in line with the wider market.

Revenue in Beauty and Toiletries was depressed by the weak performance in Electrical products which were down 12.7% with a sharp decline in sales of higher value personal care products, in particular hair straighteners.

### **Lifestyle**

Revenue in the Lifestyle category was down 2.5% to £718m.

Baby revenue continued to show good growth, up 3.7%, benefiting from increased space and extended ranges in Childrenswear and Accessories. Also contributing to this performance was the launch of the Boots Parenting Club, an extension to the Advantage Card, which saw 600,000 members sign up, representing half of the target group of parents of the 1.2m children under two years old.

The food category, which was renamed Nutrition during the year, saw revenue fall 2.6% driven by the continued impact of the decline of Atkins diet related products. Revenue in the core lunchtime offer was marginally up.

Photo continued to gain market share as other operators exited the market. Digital sales increased by 26.8% and now account for 30% of photo revenue. Overall the photo market remains in decline and revenue was down 8.9%.

### **Trading Profit**

Gross margin was down 20 basis points, in line with the planning assumption of broadly stable for the year. There has been continued investment in prices throughout the year and the cost of this has been all but offset by lower cost of goods, both through better buying and efficiencies within the manufacturing operation, and by favourable revenue mix.

Costs were up 6% in line with the planning assumption for the year. This increase is fully accounted for by the planned investment in improving the Health and Beauty offer in store, in opening new stores and in modernising the IT infrastructure. Underlying cost inflation, while significant, was fully offset by efficiencies.

### **Boots Opticians**

Revenue (£m)	174
Total sales growth	-3.3%
Trading Loss (£m)	4
Trading Margin	-2.0%

Boots Opticians had a difficult first half as the business was integrated into BTC. These were important changes for the future of the business but did create substantial disruption in the first half. The new management structure has started to bed in and performance in the second half was much stronger with revenue increasing by 4.4% and the business making a profit of £1 million.

## Boots Retail International

Revenue (£m)	58
Total revenue growth	+20.1%
Comparable basis	+16.5%

Trading Loss (£m)	2
Trading Margin	-3.1%

Boots Retail International continues to make good progress with revenue growing 20.1% in the year and losses falling 77.8% to £1.8m.

New representation was achieved in the year with 71 and 90 new implants opened in Russia and Romania respectively. In the USA, Boots continues to work with Target and CVS and is now represented in over 100 stores. Customer feedback remains very favourable and discussions are ongoing on further roll outs.

Agreement was reached in the year with M.H. Alshaya to open Boots stores in the Middle East. The first of these stores was opened today.

## Building a Better Boots

The year has seen continued focus and investment in the five key business drivers underpinned by the drive to be more efficient.

**Healthcare First** - Dispensing represents the biggest part of the Boots healthcare offer and is where a significant part of investment in Building a Better Boots has been targeted. The investment has helped drive the business forward and for the first time in Boots' history, it dispensed over 100m items in a year; an achievement which it believes is a first for any company outside of the USA. The main drivers in this growth have been the Prescription Collection Service where a further half a million new customers were signed up and the care home business where 31 new or expanded dispensing facilities were built to serve this growing business.

43 new pharmacies were opened in Edge of Town stores under the deregulation of the Control of Entry requirements and Boots also began to open a chain of Midnight Pharmacies. The aim is to have 60 stores open until midnight by the end of December 2006 which will allow the majority of the UK population to get prescriptions dispensed outside normal hours within half an hour's drive time from home.

The roll out of the Smartscrip system was completed in the year which gives Boots the only fully networked patient medical history system in the UK, automatically checking every prescription for unwanted drug interactions.

Boots carried out 10,000 Medicine Use Reviews in the final quarter, a tenfold rise on Q3 and 1,200 pharmacists are now trained to carry them out. The chlamydia testing service available in 200 London stores continues to prove successful with 14,500 people trusting Boots enough to visit a store and collect a test. Boots also continues to develop its own private pharmacy-led medical services. These utilise the pharmacist's expertise and Boots Independent Medical Agency Status to issue private prescriptions to help people look and feel better. The Boots Weight Loss Programme has already proved successful in this new category.

The good performance in OTC healthcare was partially driven by the Change One Thing campaign that ran in January. The campaign played to Boots strengths in healthcare, positioning Boots as expert advisors to people struggling with their New Year's resolutions. At its peak 500,000 people were attempting to give up smoking with Boots. Nicotine Replacement Therapies were up 23%.

The success of Change One Thing has been followed by the launch of the Boots Health Club. This will allow Boots to bring more of its healthcare expertise directly to customers while making it easier for them to choose Boots as their first and only choice for healthcare. The Club allows members to choose three health topics from a list on which they then receive information via a magazine and emails as well as discounts on related products. The option to tailor the club is important as it helps deliver a personal health service to customers. The Club is open to all but is likely to be more attractive to the over 60s who will receive a 10% discount on any Boots brand product. The card is supported by a comprehensive online medical advisory resource through Boots.com and already over 500,000 have joined in the first three weeks.

**Only at Boots** – One of the biggest features of Only at Boots is the breadth of the beauty and toiletries offer ranging from a comprehensive selection of premium and mass market brands to products which are exclusive to Boots.

The continued success in the year of No7, 17 and Soltan helped demonstrate the power of this driver. The desire is to build this offer further. The brand heritage and customer trust in Boots means it can offer credible products in areas where Boots believes other retailers would struggle. There are over 70 scientists and technical specialists in Boots own development laboratories backed up by 1,500 volunteers who sit on consumer panels testing products. All this is supported by the expertise in Boots own manufacturing team and is why the 17 relaunch could be delivered in just nine months.

Looking forward, own label and exclusive products are a key point of differentiation and margin opportunity and more new and innovative products will be a feature of the year going forward.

**Boots for Value** – Good value is key to the competitive position of Boots and has always been about the combination of prices, promotions and the Advantage card.

The last year saw 700 prices cut while delivering a broadly flat gross margin and a further 1,000 prices were cut under the banner of Look & Feel Better for Less at the start of the 2006/07 financial year. This action has sharpened prices across a wider basket of goods and Boots believes it will help shift customer perception on Boots overall pricing position.

Promotions remain an important part of the Health and Beauty market and Boots will continue to offer a very competitive promotional programme as they help drive impulse purchases and volumes.

The final element of the Boots value proposition is the Advantage Card. The card remains one of the biggest and most generous schemes in the UK. It is top of its class in customer surveys with a satisfaction score of 82% and is more likely to be rated as excellent than the nearest supermarket card. An additional two million members joined in the year and there are now 15m active holders. 70% of revenue is linked to the card with holders spending two thirds more than non-holders on each visit on average.

The card has always been very popular with beauty customers and with the launch of the Health Club and the Parenting Club it is expected to extend its popularity across a much larger span of the Boots customer base. As well as broadening the appeal, these clubs will help the card to drive the same levers in health as it has in beauty over the last few years.

**Right Stores Right Places** – Boots has continued to increase its presence with 24 new stores opened in the year including seven on the Edge of Town and three healthcentres. One of the new stores opened was the Oxford Street store at Sedley Place in London. In just over a year the store has picked up numerous awards and is already in the top 20 of Boots stores for revenue.

New stores contributed 1.8% to revenue growth last year and stores opened in the last two years now account for 5% of non-pharmacy revenue.

Looking ahead Boots will continue to add new space and has already opened 10 of the 16 new stores planned for the current quarter with the majority of those on the Edge of Town. In the year as a whole the plan is to open slightly more stores than 2005/06 with a bigger focus on healthcentres.

The year ahead will also see Boots start to address the under investment in the smaller store portfolio, many of which have not had any money spent on them for between 10 and 20 years. The £70m programme will aim to bring the identified 700 stores up to scratch over two years. The work will focus on modernising dispensaries and installing consulting rooms where practicable as well as improving the environment for customers and employees. The opportunity will also be taken to complete outstanding repairs and maintenance.

**Expert Customer Care** – One of Boots key strengths is its people and Expert Customer Care is aimed at enabling employees to deliver the expert customer care which helps customers form a lifelong relationship with Boots The Chemists.

Pharmacists are one of the most important groups within Boots because of the wealth of experience they have to share with customers. In the past there has been a tendency for them to be hidden away in the dispensaries checking prescriptions. In the 350 busiest pharmacies at Boots this is changing. Accuracy Checking Technicians are being introduced to take care of the more routine parts of dispensing, enabling pharmacists to spend more time out front advising customers. Boots believes this raising of the pharmacists role to being much more actively involved in preventative healthcare explains why 65% of all pharmacy graduates applied to join Boots in 2005/06, up from 45% the year before. The retention rate for newly qualified pharmacists improved by 11% to 84%.

**Driving Efficiency** – Boots has achieved much in recent years in the drive to make it a more efficient business. Cost inflation in the year was offset through the delivery of £70m of cost savings with the major contributions coming from improved back shop operations and Head Office savings.

Boots has also been to the fore in using good environmental practice to help drive efficiency. Through ensuring that as many items as possible are reused, Boots recycles over half the waste it produces which equates to an annual saving on waste disposal of over £3m. Also through the self supply of power to the Beeston site from its own power station, Boots meets virtually all its main site energy needs which is estimated to have saved £1m in the year as well as reducing carbon dioxide output by around 3,500 tonnes.

Looking ahead, having done much to reduce obvious costs from the business, it is recognised that future savings are becoming harder to find. That is why the investment of £140m to fully centralise the supply chain operation and £40m to restructure the IT support in the company were announced in the final quarter of the year. Together these investments are expected to remove £60m of annual structural costs by 2010/11.

## **Boots Healthcare International (BHI)**

The BHI business was successfully sold in the final quarter with Boots Group receiving £1.93bn from Reckitt Benckiser.

On 24 February £1.43bn of these proceeds were returned to shareholders through a special dividend of 200p per share. This was accompanied by a share consolidation of 58 to 39 to maintain comparability of the share price and Earnings Per Share.

BHI contributed a trading profit of £85m in the 10 months to 31 January 2006. This represented 46% growth over the profit earned in the same period last year.

## **Dividend**

A final dividend of 21p per share is recommended, bringing the dividend for the year to 30.1p per share, excluding the special dividend, the same level as last year.

On completion of the proposed merger with Alliance UniChem, Boots intends to pay a dividend in respect of the period elapsed since the end of the financial year, based on the current dividend policy and is expected to be declared prior to the merger becoming effective.

## Sale and Leaseback

A successful sale and leaseback transaction of 312 stores raised £298m. The stores were mainly freehold High Street shops in small towns and represented around a third of Boots freehold portfolio by value.

The profit on the transaction was £150m with no tax payable and the proceeds were used to reduce debt. The deal was earnings neutral.

## Cash Flow and Financing

The IFRS cash flow shown on page 14 includes BHI trading and the disposal. To give a clearer view of cash generation in the continuing business the following table is provided:

For the year ended 31 March	2006	2005
	£m	£m
<b>Trading profit from continuing operations (before finance costs)</b>	<b>336</b>	407
Movement in working capital	31	(109)
Capital Expenditure	(181)	(276)
Depreciation	175	150
Taxation and other items	(94)	(83)
<b>Net after-tax cash flow from continuing operations</b>	<b>267</b>	89
Net after-tax operating cashflow from discontinued operations	58	28
Net disposal proceeds on sale of BHI	1,855	-
Net disposal proceeds on Sale and Leaseback	298	-
Net financing costs	(20)	(22)
Special dividend	(1,426)	-
Dividend	(214)	(226)
Repurchase of shares	(50)	(303)
Other movements	(27)	(34)
<b>Movement in net debt</b>	<b>741</b>	(468)
Year end net cash/ (debt)	100	(641)
BTC year end stock cover (weeks)	10	11

The reduction in stock holding together with better management of trading terms has reduced working capital by £31 million in the year despite the upward pressure from new stores and the increase in the mix of higher value pharmacy and beauty products.

The cash flow for the year underlines both the effective management of cash resources and the cash generative nature of the business.

£50m of cash was returned to shareholders in H1 to complete the first £350m tranche of the buyback programme. There will be no further purchase of shares in the market for the foreseeable future.

## Proposed Merger with Alliance UniChem

Preparations for the proposed merger are well advanced and the parties intend to commence the formal process for effecting the merger shortly. Boots expects that all outstanding pre-conditions and conditions will be satisfied to enable the merger to become effective on 31 July 2006.

The parties intend to effect the merger by a scheme of arrangement.

The merger will create an international pharmacy-led health and beauty group with combined revenue of more than £13bn. What it offers Boots is clear. It will achieve a step change in its presence in the UK pharmacy market and help build on all the work done under the Healthcare First and Right Stores Right Places drivers. The expanded store portfolio will also offer greater opportunities for the Only at Boots work as well as helping extend the reach of the Advantage Card and the associated Health Club. The opportunities for cost savings will also help drive efficiency to allow the business to compete more effectively.

The merger will also significantly strengthen pan-European buying, giving the business a platform for successful international growth.

No guidance on trading outlook is in the public domain due to the proposed merger and Boots being in an offer period.

### **Next update**

Boots will provide an update on Q1 trading in early July.

This announcement does not constitute an offer, or form part of, any offer for, or any solicitation of any offer for, or an offer to sell, securities in any jurisdiction. Any response to the proposed merger should be made only on the basis of the information to be contained in the prospectus relating thereto.

**BOOTS GROUP PLC  
PRELIMINARY RESULTS**

**GROUP INCOME STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2006**

	Notes	2006 £m	2005-a £m
<b>Continuing operations</b>			
Revenue	3	5,027.4	4,935.5
Cost of sales		(2,782.8)	(2,809.2)
<b>Gross profit</b>		<b>2,244.6</b>	2,126.3
Selling, distribution & store costs		(1,714.2)	(1,514.0)
Administrative costs		(221.8)	(204.8)
Other operating income		160.1	4.9
Other operating expenses		(99.5)	(11.5)
<b>Group operating profit before finance costs</b>	4	<b>369.2</b>	400.9
Financial income	5	186.8	153.3
Financial expenses	5	(207.1)	(194.2)
<b>Net finance costs</b>		<b>(20.3)</b>	(40.9)
<b>Profit before taxation</b>		<b>348.9</b>	360.0
Income tax expense	6	(44.5)	(105.0)
<b>Profit after taxation from continuing operations</b>		<b>304.4</b>	255.0
<b>Profit from discontinued operations- b</b>	4, 9	<b>1,469.3</b>	11.4
<b>Profit for the year</b>		<b>1,773.7</b>	266.4
Attributable to:			
Equity holders of the parent		1,773.7	265.9
Minority interest- c		-	0.5
		<b>1,773.7</b>	266.4
<b>Earnings per ordinary share</b>			
<b>Basic – Total</b>	8	<b>259.2p</b>	35.9p
<b>Diluted Total</b>	8	<b>258.9p</b>	35.9p
<b>Basic – Continuing</b>	8	<b>44.5p</b>	34.4p
<b>Diluted Continuing</b>	8	<b>44.4p</b>	34.4p

a- Restated for reclassification of Boots Healthcare International to discontinued operations.

b- Discontinued operations includes BHI, LASIK, Dentistry, Chiropody, Laser Hair Removal, Portland Ceramics, the Handbag Joint Venture and the part of Boots Manufacturing sold to Reckitt Benckiser on 31 January 2006.

c- Minority interests all relate to discontinued operations.

**BOOTS GROUP PLC  
PRELIMINARY RESULTS**

**GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE  
FOR THE YEAR ENDED 31 MARCH 2006**

	<b>2006</b>	2005 <sup>-a</sup>
	<b>£m</b>	£m
Foreign exchange translation differences	<b>8.7</b>	1.4
Foreign exchange differences recycled on the disposal of BHI	<b>(12.3)</b>	-
Actuarial (loss)/ gain on defined benefit pension schemes- b	<b>(54.3)</b>	11.4
Effective portion of changes in fair value of cash flow hedges	-	0.3
<b>Net income recognised directly in equity</b>	<b>(57.9)</b>	13.1
<b>Profit for the year</b>	<b>1,773.7</b>	266.4
<b>Total recognised income and expense for the year</b>	<b>1,715.8</b>	279.5
Attributable to:		
Equity holders of the parent	<b>1,715.8</b>	279.0
Minority interest	-	0.5
<b>Total recognised income and expense for the year</b>	<b>1,715.8</b>	279.5

a- Restated for reclassification of Boots Healthcare International into discontinued operations.

b- Actuarial (loss)/ gain on defined benefit pension schemes are net of tax of £23.1m (2005 £(4.8)m).

**BOOTS GROUP PLC  
PRELIMINARY RESULTS**

**GROUP BALANCE SHEET  
31 MARCH 2006**

	Notes	2006 £m	2005 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill		-	0.4
Other intangible assets		146.8	441.8
Property, plant & equipment		1,267.9	1,452.4
Other receivables		34.4	58.6
Deferred tax assets		54.7	65.4
<b>Total non-current assets</b>		<b>1,503.8</b>	<b>2,018.6</b>
<b>Current assets</b>			
Inventories		594.4	713.6
Trade and other receivables		462.0	522.2
Current tax asset		13.5	11.5
Available for sale assets		0.2	0.2
Cash and cash equivalents		856.0	128.7
Non-current assets held for sale		1.2	0.7
<b>Total current assets</b>		<b>1,927.3</b>	<b>1,376.9</b>
<b>Total assets</b>		<b>3,431.1</b>	<b>3,395.5</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Short term borrowings and overdrafts		(183.1)	(183.8)
Current tax liability		(56.2)	(95.1)
Trade and other payables		(633.1)	(658.9)
Provisions		(62.1)	(11.7)
<b>Total current liabilities</b>		<b>(934.5)</b>	<b>(949.5)</b>
<b>Non-current liabilities</b>			
Borrowings		(574.9)	(587.1)
Other payables		(30.0)	(50.9)
Non current tax liability		(0.3)	(0.6)
Deferred tax liabilities		(96.5)	(136.6)
Retirement benefit obligations	10	(56.2)	(37.6)
Provisions		(87.2)	(12.3)
<b>Total non-current liabilities</b>		<b>(845.1)</b>	<b>(825.1)</b>
<b>Total liabilities</b>		<b>(1,779.6)</b>	<b>(1,774.6)</b>
<b>NET ASSETS</b>		<b>1,651.5</b>	<b>1,620.9</b>
<b>EQUITY</b>			
Called up share capital		180.6	182.6
Share premium account		2.3	2.3
Capital redemption reserve		28.6	26.5
Fair value reserve		0.1	0.1
Translation reserve		(2.1)	1.4
Merger reserve		310.8	310.8
Retained profit		1,131.2	1,096.1
<b>Equity shareholders' funds</b>		<b>1,651.5</b>	<b>1,619.8</b>
<b>Equity minority interests</b>		<b>-</b>	<b>1.1</b>
<b>TOTAL EQUITY</b>		<b>1,651.5</b>	<b>1,620.9</b>

**BOOTS GROUP PLC  
PRELIMINARY RESULTS**

**GROUP CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2006**

	2006 £m	2005- a £m
<b>Cash flows from operating activities</b>		
Profit for the year	1,773.7	266.4
Less discontinued operations	(67.2)	(11.4)
Profit for the year – continuing operations	1,706.5	255.0
Profit on sale of business	(1,402.1)	-
Depreciation, amortisation and impairments	185.5	154.1
(Profit)/loss on disposal of property, plant and equipment and share scheme changes	(171.1)	6.6
Foreign exchange gain	(0.4)	(3.9)
Other non-cash movements	(2.5)	-
Interest expense	20.3	40.9
Income tax expense	44.5	105.0
<b>Operating profit before changes in working capital and provisions</b>	<b>380.7</b>	<b>557.7</b>
Increase in trade and other receivables	(27.5)	(35.5)
Decrease/(increase) in inventories	64.9	(30.4)
Increase/(decrease) in trade and other payables	23.2	(43.4)
Increase in provisions and employee benefits	59.5	23.9
<b>Cash generated from operations</b>	<b>500.8</b>	<b>472.3</b>
Income taxes paid	(68.5)	(117.0)
<b>Net cash from operating activities – continuing operations</b>	<b>432.3</b>	<b>355.3</b>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiaries	-	(5.0)
Disposal of subsidiaries	-	2.0
Acquisition of property, plant and equipment and intangible assets	(181.1)	(276.5)
Proceeds from sale of property, plant and equipment and intangible assets	308.3	10.1
Interest received	21.1	12.4
<b>Net cash used in investing activities – continuing operations</b>	<b>148.3</b>	<b>(257.0)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of share capital	-	2.1
Repayment of borrowings	0.8	293.3
Interest paid	(41.1)	(33.6)
Payment of finance lease liabilities	(11.7)	(16.8)
(Purchase)/disposal of own shares	(0.1)	7.7
Repurchase of shares	(50.0)	(303.3)
Dividends paid	(1,640.3)	(225.1)
<b>Net cash used in financing activities – continuing operations</b>	<b>(1,742.4)</b>	<b>(275.7)</b>
Net cash inflow from discontinued operations	38.8	20.0
Cash flows arising on sale of business- c	1,854.5	-
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>731.5</b>	<b>(157.4)</b>

a- Restated for reclassification of Boots Healthcare International into discontinued operations.

b- During the year ended 31 March 2006, discontinued operations had cash inflows from operating activities of £67.3m (2005 £44.8m), cash outflows from investing activities of £7.2m (2005 £22.5m) and cash outflows from financing activities of £21.3m (2005 £2.3m).

c- Consideration received of £1.926bn less costs of disposal paid of £71.5m.

## Notes

### 1. Basis of preparation

The attached extracts from the preliminary full year financial statements have been prepared following the adoption of International Financial Reporting Standards (IFRS). Full details of the IFRS restatements can be found on the company's web site.

### 2. Group statement of changes in equity

	2006	2005
	£m	£m
<b>Total recognised income and expense for the year</b>	<b>1,715.8</b>	279.5
Dividends	(1,640.3)	(225.1)
Dividends to minority interest	-	(0.6)
Net share capital issued (net of expenses)	-	2.0
Repurchase of shares	(50.0)	(300.0)
“Share Based Payment” share scheme awards	5.3	5.8
Disposal of own shares	(0.2)	7.7
<b>Net increase in shareholders' funds</b>	<b>30.6</b>	(230.7)
Opening shareholders' funds	1,620.9	1,851.6
<b>Closing shareholders' funds</b>	<b>1,651.5</b>	1,620.9

### 3. Revenue by business segment

	2006	2005
	£m	£m
Boots The Chemists	4,732.0	4,651.1
Boots Opticians	174.3	180.3
	<b>4,906.3</b>	4,831.4
Boots Retail International- a	56.3	46.4
Group and Other- b	64.8	57.7
Continuing operations	<b>5,027.4</b>	4,935.5
Boots Healthcare International- c	430.9	494.2
Other discontinued operations- d	12.9	41.0
Discontinued operations	<b>443.8</b>	535.2
<b>Total revenue</b>	<b>5,471.2</b>	5,470.7

a- Boots Retail International excludes inter-segmental sales of £1.6m (2005 £1.9m) to Boots The Chemists.

b- Group and other includes Boots Manufacturing third party sales of £60.1m (2005 £55.2m).

c- Boots Healthcare International also made inter-segmental sales of £48.4m (2005 £28.5m).

d- Other discontinued operations include Portland Ceramics and the part of Boots Manufacturing sold to Reckitt Benckiser (2005 LASIK, Dentistry, Chiropody, Laser Hair Removal and the Handbag Joint Venture).

#### 4. Profit for the period

##### For the year ended 31 March 2006

	Continuing operations					Discontinued operations			
	BTC	BOL	BRI	Group & Other	Total	BHI	Other	Total	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Trading profit- a	388.4	(3.5)	(1.8)	(47.2)	<b>335.9</b>	85.2	(0.3)	<b>84.9</b>	
Profit/ (loss) on sale of other assets- b	-	(0.3)	(0.6)	8.4	<b>7.5</b>	(0.3)	-	<b>(0.3)</b>	
Depreciation on disposal group assets	-	-	-	-	-	5.2	-	<b>5.2</b>	
Profit on sale and leaseback- c	(13.6)	-	-	163.6	<b>150.0</b>	-	-	-	
Supply chain reconfiguration- d	(57.1)	-	-	3.0	<b>(54.1)</b>	-	-	-	
IT infrastructure- e	-	-	-	(37.1)	<b>(37.1)</b>	-	-	-	
Store refurbishment- f	(31.0)	(2.0)	-	-	<b>(33.0)</b>	-	-	-	
Operating profit	<u>286.7</u>	<u>(5.8)</u>	<u>(2.4)</u>	<u>90.7</u>	<b>369.2</b>	<u>90.1</u>	<u>(0.3)</u>	<b>89.8</b>	
Net financing (costs)/ income					<b>(20.3)</b>			<b>0.1</b>	
Profit before tax					<b>348.9</b>			<b>89.9</b>	
Income tax expense- g					<b>(44.5)</b>			<b>(22.7)</b>	
Profit after tax					<b>304.4</b>			<b>67.2</b>	
Profit on disposal of discontinued operations					-			<b>1,370.7</b>	
Attributable tax credit								<b>31.4</b>	
Profit for the year					<b>304.4</b>			<b>1,469.3</b>	<b>1,773.7</b>

##### For the year ended 31 March 2005

	Continuing operations					Discontinued operations			
	BTC	BOL	BRI	Group & Other	Total	BHI	Other	Total	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Trading profit- a	459.0	2.8	(8.1)	(46.2)	<b>407.5</b>	84.7	(6.5)	78.2	
Loss on sale of PPE	-	-	-	(6.6)	<b>(6.6)</b>	-	-	-	
Profit on sale of brand	-	-	-	-	-	7.3	-	7.3	
Closure provision	-	-	-	-	-	-	(5.4)	(5.4)	
Operating profit	<u>459.0</u>	<u>2.8</u>	<u>(8.1)</u>	<u>(52.8)</u>	<b>400.9</b>	<u>92.0</u>	<u>(11.9)</u>	80.1	
Net financing costs					<b>(40.9)</b>			(0.9)	
Share of Joint Venture					-			(0.6)	
Profit before tax					<b>360.0</b>			78.6	
Income tax expense- h					<b>(105.0)</b>			(31.3)	
Profit after tax					<b>255.0</b>			47.3	
Profit/ (loss) on disposal of discontinued operations					-			(51.3)	
Attributable tax credit					-			15.4	
Profit for the year					<b>255.0</b>			11.4	<b>266.4</b>

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

b- Profit/ (loss) on sale of Property, Plant and Equipment (including the factory at Airdrie) and Intangible Fixed Assets.

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

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

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

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

g- The taxation impact of the non- trading profit items, excluding financing costs, is £39m credit on continuing operations and £nil on discontinued operations.

h- The taxation impact of the non- trading profit items, excluding financing costs, is £1.8m credit on continuing operations and £1.2m credit on discontinued operations.

## 5. Financial income and expenses

	2006			2005		
	Financing interest £m	Pension interest £m	Total £m	Financing interest £m	Pension interest £m	Total £m
Interest receivable and similar income	23.5	-	23.5	11.3	-	11.3
Expected return on pension scheme assets	-	163.3	163.3	-	142.0	142.0
<b>Total Financial Income</b>	<b>23.5</b>	<b>163.3</b>	<b>186.8</b>	11.3	142.0	153.3
Interest payable and similar charges	(40.4)	-	(40.4)	(35.2)	-	(35.2)
Interest on pension scheme liabilities	-	(166.7)	(166.7)	-	(159.0)	(159.0)
<b>Total Financial Expense</b>	<b>(40.4)</b>	<b>(166.7)</b>	<b>(207.1)</b>	(35.2)	(159.0)	(194.2)
<b>Net Finance Costs</b>	<b>(16.9)</b>	<b>(3.4)</b>	<b>(20.3)</b>	(23.9)	(17.0)	(40.9)

## 6. Taxation

Taxation has been provided at an effective rate of 12.8% (2005 29.2%). The taxation rate is low because the profit arising on the sale and leaseback transaction is tax-free due to the offset of capital losses previously unrecognised for deferred tax, and the release of a deferred tax liability relating to revalued property which, following the sale and leaseback transaction, is no longer required. The effective tax rate on group operating profit before other operating income and expenses and before prior year tax items is 31%.

## 7. Dividends

Dividends paid during the period were £1,640.3m (2005 £225.1m). This includes a special dividend of 200p per share (£1,425.9m) paid on 24 February 2006 from the proceeds of the sale of BHI.

After the balance sheet date, the directors have declared a final dividend of 21p per share (2005 21p per share). In accordance with the requirements of IFRS this dividend has not been provided for.

The final dividend, which amounts to £100.7m (2005 £150.1m), will be paid on 4 August 2006 to shareholders on the register on 2 June 2006. The shares will be quoted ex dividend on 31 May 2006. Members of the Boots Share Account and Crest Members will have the opportunity to reinvest their cash dividend in existing shares bought on the London Stock Exchange through a dividend reinvestment plan. All applications to join that plan or amend existing instructions under it must be received by the company's registrars by 17.00 hours GMT on 7 July 2006 if they are to apply to this dividend.

## 8. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to equity shareholders by the weighted average number of shares in issue during the year, excluding those held by various employee share ownership trusts.

Diluted earnings per share adjusts the weighted average number of shares assuming all share options granted to employees under the employee savings related scheme and Executive Share Options Schemes are exercised.

<b>Number of shares</b>	<b>2006</b>		<b>2005</b>	
	<b>m</b>		<b>m</b>	
Weighted average number of shares used in basic earnings per share calculation	<b>684.2</b>		739.8	
Dilutive effect of options	<b>0.9</b>		1.1	
Weighted average number of shares used in diluted earnings per share calculation	<b>685.1</b>		740.9	
<b>Earnings</b>	<b>2006</b>		<b>2005</b>	
	<b>£m</b>		<b>£m</b>	
Earnings for adjusted basic and diluted earnings per share calculation – total	<b>1,773.7</b>		265.9	
Earnings for adjusted basic and diluted earnings per share calculation – continuing	<b>304.4</b>		255.0	
Earnings for adjusted basic and diluted earnings per share calculation – discontinued	<b>1,469.3</b>		10.9	
Earnings for adjusted basic and diluted earnings per share calculation – continuing trading profit	<b>232.1</b>		259.8	
<b>Reconciliation of continuing profit after tax to trading continuing profit after tax</b>	<b>2006</b>		<b>2005</b>	
	<b>£m</b>		<b>£m</b>	
<b>Profit after tax for continuing operations</b>	<b>304.4</b>		255.0	
Add:				
Profit on sale and leaseback	<b>(150.0)</b>		-	
Store friendly supply chain costs	<b>54.1</b>		-	
IT restructuring	<b>37.1</b>		-	
Store refurbishment costs	<b>33.0</b>		-	
Profit/ (loss) on sale of Property, Plant and Equipment including Airdrie	<b>(7.5)</b>		6.6	
Attributable income tax credit	<b>(39.0)</b>		(1.8)	
<b>Trading profit after tax from continuing operations</b>	<b>232.1</b>		259.8	
<b>Earnings per share</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>Basic</b>	<b>Basic</b>	<b>Diluted</b>	<b>Diluted</b>
Total EPS	<b>259.2p</b>	35.9p	<b>258.9p</b>	35.9p
Discontinued EPS	<b>214.7p</b>	1.5p	<b>214.5p</b>	1.5p
Continuing EPS	<b>44.5p</b>	34.4p	<b>44.4p</b>	34.4p
Continued trading profit EPS	<b>33.9p</b>	35.1p	<b>33.9p</b>	35.1p

## 9. Discontinued operations

The sale of Boots Healthcare International (BHI) to Reckitt Benckiser for £1.926bn was completed on 31 January 2006. In the period April 2005 to January 2006 when BHI was part of the Boots Group, it traded very successfully with like for like sales growth of 8.3% and a trading profit of £85.2m, a growth of 46.4%. After tax this results in a profit of £67.2m.

The net profit on the disposal of BHI is £1,402.1m. The disposal of BHI was largely tax free due to the substantial shareholdings exemption and the utilisation of capital losses previously not recognised for deferred tax. Included within the net profit on disposal is a tax credit of £31.4m, which mainly relates to tax relief due on costs associated with the disposal.

## 10. Pensions

The principal UK pension scheme is Boots Pension Scheme. The independent scheme actuary carried out the latest full valuation of the scheme as at 1 April 2004.

The group also operates defined benefit plans for a number of overseas schemes. Although no formal valuation has been performed in respect of the main Boots Pension Scheme at 31 March 2006, the independent scheme actuary has estimated the pension deficit at this date. Accordingly the overall deficit for all defined benefit schemes has increased to £56.2m (2005 £37.6m)

## 11. Boots The Chemists Store Portfolio

	2006	2005
Number of stores:		
Destination	338	328
Local destination	464	464
Community chemist	505	505
Work convenience	150	156
Other	7	6
	<b>1,464</b>	1,459
Number of pharmacies	<b>1,325</b>	1,285
Number of Edge of Town (EOT) stores	<b>119</b>	112
Store area (m <sup>2</sup> ) – period end	<b>684,161</b>	673,748
Store area (m <sup>2</sup> ) – period average	<b>681,211</b>	658,415

## 12. Other information

A summary of the full year report will be published on 22 June 2006. Copies of the summary or of this report will be available at 'www.boots-plc.com' or from The Secretary, Boots Group PLC, Nottingham NG2 3AA.

There will be a live audiocast of the presentation to analysts at 09.00 hours BST on Thursday 18 May 2006. The slide presentation will be available from 10.30 hours BST on the same day. Both can be accessed from the Investor Information page at 'www.boots-plc.com'.

The preliminary figures for the financial year ended 31 March 2006 together with the corresponding amounts for 2005 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 March 2006 will be delivered to the Registrar of Companies in July 2006. 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 Thursday 22 June 2006. 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 20 July 2006.

Issued by Boots Group PLC