

Financial review



Group performance

During the year our aim has been to refocus on the two core businesses: Boots The Chemists and Boots Healthcare International. Our priorities have been to drive profitable top line growth while increasing investment in the future. Following the sale of Halfords we have made a significant return of £462.8m to shareholders through our share buy back programme.

This has been a year of substantial change and the financial results reflect this.

Turnover from continuing operations increased by 6.0% to £5,092.4m. This reflects the progress made in Boots The Chemists where sales increased by 5.2% and in Boots Healthcare International where sales increased by 13.0%.

Operating profit fell by 10.7% to £544.1m. This masks underlying progress in both Boots The Chemists and Boots Healthcare International but shows the effect of the investments we are making to renew our core businesses and the costs associated with exiting activities. The major elements due to their nature and material impact on profitability are: i) removing Halfords' operating profits of £22.5m in 2003 and £54.3m in 2002, following the sale of this business during the year; ii) an increase in company pension costs of £25.2m to £33.5m due to the effect of a reduction in the amortisation of the fund surplus on the SSAP24 calculation; iii) rationalisation costs of £40.2m (2002 £16.4m) in relation to the rationalisation of Boots Retail International and the closure of the Pure Beauty stores, our J Sainsbury implants and the Airdrie factory the latter reflecting the early progress of the "Getting in Shape" £100m cost programme; and iv) new investment in stores and pharmacies of £22.0m (2002 £0.8m).

Profit before tax fell 16.9% to £494.9m due to the above items and £123.2m loss on the sale of Halfords and £34.5m costs on the closure of certain of the wellbeing services offering. These are both shown as exceptional items and are partially offset by an exceptional interest credit of £92.1m arising from the closure of interest rate swaps.

Taxation Excluding non-operating exceptional items before interest, the effective tax rate for the group was 31.5%, slightly higher than last year's rate of 31.1% due to increased profits overseas which were taxed at a higher rate.

Basic earnings per share before exceptional items decreased by 9.4% to 45.2p (basic earnings per share decreased by 21.6% to 36.0p). The weighted average number of shares in issue decreased in the year from 881.6m to 838.1m as a result of the share buy back programmes.

Dividend The board has proposed a final dividend of 20.2p. This brings the total dividend for the year to 28.6p, an increase of 4.4% over last year.

Cash flow The following summary of cash flow demonstrates the company's ability consistently to generate free cash flow.

Summary of cash flows	2003 £m	2002 £m
Operating cash flows before exceptionals	590	752
Exceptional operating cash flows	(8)	(29)
Acquisition/disposal of businesses	358	4
Purchase of fixed assets	(146)	(172)
Disposal of fixed assets	119	62
Disposal of own shares	3	8
Taxation paid	(197)	(139)
Free cash flow	719	486
Repurchase of shares	(465)	(36)
Dividends paid	(238)	(235)
Net interest	75	41
Net cash flow	91	256

Free cash flow is defined as the cash flow available to all providers of capital.

Cash flow from operating activities before exceptionals was £590.4m, a decrease of £161.3m on last year mainly arising from lower operating profit and higher stock levels.

£358.1m realised from disposals and acquisitions of businesses includes £367.6m in respect of the sale of Halfords in August 2002. The proceeds from this sale are being used to fund the current £400m share repurchase programme.

78.8m shares at a cost of £462.8m were repurchased during the year. 41.4m shares at a cost of £253.9m were