THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice as soon as possible from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all of your Boots Shares or all of your Alliance UniChem Shares, you should send this document as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or the transferee. However, the distribution of this document and any accompanying documents into certain jurisdictions other than the United Kingdom may be restricted by law. Therefore, persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

A copy of this document, which comprises a prospectus relating to the New Boots Shares prepared in accordance with the Prospectus Rules made under section 84 of FSMA, has been filed with the Financial Services Authority and has been made available to the public as required by section 3.2 of the Prospectus Rules.

You should read the whole of this document and any documents incorporated herein by reference. In particular, your attention is drawn to the "Risk Factors" section of this document.

BOOTS GROUP PLC

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 4452715)

Proposed issue of up to 481,846,975 new ordinary shares in Boots in connection with its proposed merger with Alliance UniChem and application for admission of up to 481,846,975 new ordinary shares in Boots to the Official List and to trading on the London Stock Exchange's main market for listed securities

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Application has been made to the UK Listing Authority for the New Boots Shares proposed to be issued in connection with the Merger to be admitted to the Official List and to the London Stock Exchange for the New Boots Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective on the Effective Date (which is currently expected to be 31 July 2006). Application has not been, and will not be, made for the New Boots Shares to be admitted to, or to be traded on, any other stock exchange.

Prospective investors should only rely on the information contained in this document and any documents incorporated herein by reference. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by Boots, the Directors of Boots or the Proposed Directors. The contents of the websites of Boots and Alliance UniChem do not form part of this document and should not be relied upon. Boots will comply with its obligations to publish updated information as required by law or by any regulatory authority but assumes no further obligation to publish additional information.

This document and any accompanying documents are not be made available to any Alliance UniChem Shareholder with a registered address in any Restricted Jurisdiction and may not be treated as an invitation to subscribe for New Boots Shares by any person resident or located in such jurisdiction or any other Restricted Jurisdiction.

All persons (including, without limitation, nominees, trustees or custodians) who would, or otherwise intend to, forward this document and its accompanying documents to any jurisdiction outside the United Kingdom, should seek appropriate advice before taking any action.

The New Boots Shares issued to or for the benefit of any resident of Canada will not be qualified for sale under the securities laws of any province or territory of Canada and will be subject to resale restrictions.

The New Boots Shares will not be registered under the US Securities Act, and will be issued in the United States pursuant to the Scheme in reliance on the exemption from registration provided by Section 3(a)(10) of that Act. In addition, the New Boots Shares will not be registered under the securities laws of any state of the United States, and will be issued in the United States in reliance on available exemptions from such state law registration requirements. In particular, US persons should note the matters set out in paragraph 9 of Part II ("Further Information on the Merger") of this document.

The New Boots Shares have not been, and will not be, registered under the applicable laws of any Restricted Jurisdiction. Accordingly, the New Boots Shares may not be offered, sold, delivered or transferred, directly or indirectly, in or into any Restricted Jurisdiction or to or for the account or benefit of any other national, resident or citizen of any Restricted Jurisdiction.

Goldman Sachs International, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as financial adviser and sponsor to Boots in relation to the matters described in this document and is not advising any other person and accordingly will not be responsible to any person other than Boots for providing the protections afforded to the customers of Goldman Sachs International or for providing advice in relation to the matters described in this document.

Dated: 5 June 2006

THE CONTENTS OF THIS DOCUMENT ARE NOT TO BE CONSTRUED AS LEGAL, FINANCIAL OR TAX ADVICE. YOU SHOULD CONSULT YOUR OWN SOLICITOR, INDEPENDENT FINANCIAL ADVISER OR TAX ADVISER FOR LEGAL, FINANCIAL OR TAX ADVICE.

NONE OF BOOTS, THE DIRECTORS OF BOOTS, THE PROPOSED DIRECTORS OR THEIR RESPECTIVE REPRESENTATIVES IS MAKING ANY REPRESENTATION TO ANY PERSON REGARDING THE LEGALITY OF AN INVESTMENT BY ANY PERSON UNDER APPROPRIATE INVESTMENT OR SIMILAR LAWS. YOU SHOULD CONSULT WITH YOUR OWN ADVISERS AS TO THE LEGAL, TAX, BUSINESS, FINANCIAL AND RELATED ASPECTS OF ANY PROPOSED ACQUISITION OF THE NEW BOOTS SHARES.

THIS DOCUMENT DOES NOT CONSTITUTE AN OFFER OF, OR THE SOLICITATION OF AN OFFER TO SUBSCRIBE FOR OR BUY, ANY NEW BOOTS SHARES TO ANY PERSON IN ANY JURISDICTION TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION IN SUCH JURISDICTION AND IS NOT FOR DISTRIBUTION TO ANY ALLIANCE UNICHEM SHAREHOLDER IN OR INTO ANY RESTRICTED JURISDICTION, EXCEPT AS DETERMINED BY BOOTS IN ITS SOLE DISCRETION AND PURSUANT TO APPLICABLE LAWS.

THIS DOCUMENT CONTAINS TRADE NAMES, TRADE MARKS, LOGOS, PRODUCT NAMES, SERVICE NAMES AND BRANDS WHICH ARE PROPRIETARY TO THE BOOTS GROUP, OR, AS THE CASE MAY BE, TO THE ALLIANCE UNICHEM GROUP.

DEFINED TERMS

Certain terms used in this document are defined in the **"Definitions"** section of this document.

Notice to New Hampshire residents: Neither the fact that a registration statement or an application for a license has been filed under Chapter 421-B of the New Hampshire Revised Statutes with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire constitutes a finding by the Secretary of State of New Hampshire that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the Secretary of State has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security or transaction. It is unlawful to make, or cause to be made to any prospective purchaser, customer or client, any representation inconsistent with the provisions of this paragraph.

TABLE OF CONTENTS

SUMMARY

THE FOLLOWING SUMMARY SHOULD BE READ AS AN INTRODUCTION TO THIS PROSPECTUS. ANY DECISION TO INVEST IN NEW BOOTS SHARES SHOULD BE BASED ON A CONSIDERATION OF THIS PROSPECTUS AS A WHOLE.

Where a claim relating to information contained in this document is brought before a court, a plaintiff investor might, under the national legislation of the EEA States, have to bear the costs of translating this Prospectus before legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary, including any translation of this summary, but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus.

1. Introduction

On 3 October 2005, the Boards of Boots and Alliance UniChem announced that they had agreed the terms of a recommended merger to create the Enlarged Group, an international pharmacy-led health and beauty group, to be called "Alliance Boots".

On announcement, the Merger was subject to (amongst other things) the satisfaction or waiver of certain pre-conditions, including completion of the disposal of BHI and receipt of appropriate competition clearances. Those pre-conditions have now been satisfied or waived.

On 25 May 2006, Boots agreed certain undertakings with the OFT pursuant to which it undertook to use its best endeavours to divest 96 pharmacies of the Enlarged Group following Completion.

2. Summary of the Merger Terms

It is intended that the Merger, which is being unanimously recommended by the Boards of Boots and Alliance UniChem, will be implemented by means of the Scheme. Under the terms of the Scheme, the Alliance UniChem Shares will be cancelled and, on the Effective Date, Alliance UniChem Shareholders will receive:

for each Alliance UniChem Share **1.332 New Boots Shares**

and so in proportion to any other number of Alliance UniChem Shares held.

On the Effective Date, Alliance UniChem will become a wholly-owned subsidiary of Boots.

Assuming the issue of the maximum number of New Boots Shares and that no Boots Shares are issued in the period from the publication of this document to the Effective Date, the enlarged issued ordinary share capital of Boots would be held, on the Effective Date, as to 49.8% by Alliance UniChem Shareholders and as to 50.2% by the existing Boots Shareholders.

The New Boots Shares will be issued credited as fully paid, will rank equally with the existing Boots Shares and will be entitled to all dividends and other distributions declared or paid by Boots by reference to a record date on or after the Effective Date.

Alliance UniChem Shareholders will retain all rights and interest in any dividends and other distributions declared or paid by Alliance UniChem by reference to a record date prior to the Effective Date.

3. Information on the Boots Group and the Alliance UniChem Group

The Boots Group

The Boots Group is a health and beauty group with operations in retail and manufacturing. Its products are sold in 17 countries, it employs approximately 63,000 people in total and operates approximately 1,500 health and beauty stores with an aggregate selling area of approximately 680,000 square metres. The Boots Group sells a wide range of products under the "Boots" brand and also owns a number of UK market leading brands by revenue such as "N° 7" and "Soltan". The Boots Group's international division, BRI, has "Boots" branded implants in host retailers' stores in 14 countries as well as approximately 95 owned stores in Asia. For the year ended 31 March 2006, the Boots Group generated Trading Profit[1] from continuing operations of £335.9 million on revenue from continuing operations of £5,027.4 million. As at 31 March 2006, the Boots Group had net assets of £1,651.5 million.

The Alliance UniChem Group

The Alliance UniChem Group, formed in 1997 through the merger of UniChem PLC and Alliance Santé S.A., has core businesses of pharmaceutical wholesaling and retail pharmacy. The Alliance UniChem Group has retail operations in 5 countries and operates over 1,300 pharmacies across Europe (including approximately 120 operated by associates), including over 960 in the UK. Including associates, the Alliance UniChem Group has wholesaling operations in 13 countries and distributes to approximately 125,000 pharmacies, hospitals and health centres through a distribution network comprising around 380 depots. For the year ended 31 December 2005, the Alliance UniChem Group generated total Operating Profit (including share of associates' operating profit) of £331.8 million on total revenue (including share of associates' revenue) of £11,136.5 million. As at 31 December 2005, the Alliance UniChem Group had net assets of £1,184.8 million.

4. Background to and Reasons for the Merger

The merger of equals between Boots and Alliance UniChem will create an international pharmacy-led health and beauty group. The Merger is expected to build on the existing strategies of the Boots Group and the Alliance UniChem Group and combine their complementary skills and businesses to:

- capitalise on growth in demand for healthcare and beauty products, which is expected to offer significant opportunities for the Enlarged Group;

- create Europe's leading retail pharmacy business by revenue comprising approximately 3,000 retail outlets, including approximately 2,600 in the UK, with a wholesale and distribution network serving approximately 125,000 outlets;

- enhance international growth opportunities in new markets by utilising the Enlarged Group's acquisition skills, management expertise, internationally-recognised brands, strong balance sheet and pipeline of existing acquisition opportunities in new geographical markets; and

- deliver annual pre-tax cost savings of at least £100 million[2] per annum by the fourth full year[3] following Completion by streamlining the Enlarged Group's purchasing, logistics and wholesale network and rationalising corporate costs.

The Enlarged Group also expects incremental revenue benefits from the increased availability of its leading brands, own label products and the Boots Advantage Card across the larger network. In addition, the Enlarged Group is expected to benefit from the application of retail pharmacy and wholesale skills across the broader Enlarged Group.

[1] Trading Profit for the year ended 31 March 2006 has been extracted from note 2 to the Boots Group's audited financial statements for the year ended 31 March 2006 contained in Part VII ("Historical Financial Information Relating to the Boots Camp") of this document.

[2] These statements of estimated cost savings and the one-off costs of achieving them relate to future actions and circumstances which, by their nature, involve risks, uncertainties and other factors. Because of this, the cost savings referred to may not be achieved, or those achieved could be materially different from those estimated.

[3] Being the 12 month period ending on the fourth anniversary of Completion.

5. Financial Effects of the Merger[1]

On a pro forma basis and assuming the Merger had completed on 1 April 2005, the Boots Group's adjusted profit for the year attributable to equity shareholders, before taking into account the impact of any accounting fair value adjustments, for the year ended 31 March 2006 would have increased compared to the Boots Group's equivalent reported result for that year.

Adjusted profit for the year attributable to equity shareholders is profit for the year attributable to equity shareholders adjusted to exclude IAS 39 timing differences on interest rate and currency hedging, the results of discontinued operations and items classified by Boots as one-off or unusual in nature (including the tax effects thereof)[2]. In the year to 31 March 2006, on a pro forma basis, these one-off or unusual items would have included one-off restructuring costs relating to ongoing trading activities, one-off costs relating to the Merger (including transaction costs and integration costs to achieve the projected synergies), profit on disposal of businesses (including discontinued operations) and profit on disposal of/(amounts written off) non-current assets[3].

6. Directors of Boots as from the Effective Date

As from the Effective Date, the Boots Board will comprise the following members:

	Position as from the Effective Date
Sir Nigel Rudd	Chairman
Stefano Pessina	Executive Deputy Chairman
Richard Baker	Chief Executive
George Fairweather	Group Finance Director
Ornella Barra	Wholesale and Commercial Affairs Director
Steve Duncan	Community Pharmacy Director
Scott Wheway	Health and Beauty Retail Director
Guy Dawson	Non-Executive Director
Adrian Loader	Non-Executive Director
Tim Parker	Non-Executive Director
Hélène Ploix	Non-Executive Director
Patrick Ponsolle	Non-Executive Director
Manfred Stach	Non-Executive Director

A further Non-Executive Director will be appointed following the Effective Date.

Stefano Pessina, Executive Deputy Chairman, will be responsible for integration and strategy and will, following Completion, report directly to the Boots Board.

7. Further Details Relating to the Merger

Conditions to the Implementation of the Scheme

In summary, the implementation of the Scheme is conditional upon, amongst other things:

- the passing by the Alliance UniChem Shareholders of the resolutions to be proposed at the Court Meeting and also at the Alliance UniChem Extraordinary General Meeting;
- the sanction of the Scheme, and the Reduction of Capital, by the Court;
- the satisfaction or waiver of the competition condition;
- the passing by the Boots Shareholders of each of the Merger Resolutions; and
- the Admission of the New Boots Shares.

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1 References to the anticipated effects, on a pro forma basis, of the Merger on the Boots Group's adjusted profit for the year attributable to equity shareholders should not be interpreted as a profit forecast nor should this be interpreted to mean that the Boots Group's adjusted profit for the year attributable to equity shareholders following Completion will necessarily exceed or match its published adjusted profit for the year attributable to equity shareholders.

2 For the Boots Group on a standalone basis, the equivalent adjusted profit for the year attributable to equity shareholders is continuing Trading Profit after deducting net finance costs of continuing operations and attributable income taxes, as set out in note 11 on page 103 to the audited financial statements of the Boots Group for the year ended 31 March 2006 in Part VII ("Historical Financial Information Relating to the Boots Group") of this document.

3 This paragraph reflects the expected effect of the divestments contemplated by the undertakings agreed with the OFT.

Irrevocable Undertaking

Boots has received an irrevocable undertaking to vote in favour of the resolutions to be proposed at the Court Meeting and at the Alliance UniChem Extraordinary General Meeting from Stefano Pessina, the Executive Deputy Chairman of Alliance UniChem, and a Luxembourg incorporated company controlled by him, in respect of 108,818,474 Alliance UniChem Shares, representing approximately 30% of Alliance UniChem's entire issued share capital. The circumstances in which this undertaking ceases to be binding include circumstances where the Boots Shareholders fail to pass the Merger Resolutions.

Following Completion, Mr Pessina will indirectly hold approximately 15% of the enlarged issued share capital of Boots, a holding Mr Pessina has indicated he intends to retain for the long term.

Inducement Fees

Boots has agreed to pay Alliance UniChem an inducement fee of £43 million (inclusive of any amounts in respect of VAT) if (amongst other things) an alternative offer (howsoever structured) for Boots is either recommended by the Boots Directors or becomes or is declared wholly unconditional, the Boots Directors withdraw, qualify or adversely modify their recommendation of the Merger or the Boots Shareholders fail to pass the Merger Resolutions.

Alliance UniChem has agreed to pay Boots an inducement fee of £31 million (inclusive of any amounts in respect of VAT) in certain circumstances following the announcement of a firm intention to make an offer (howsoever structured) for Boots by a person with a direct or indirect controlling interest in a business, the principal activity of which is national pharmaceutical wholesale or pharmacy activity in the United Kingdom.

8. Current Trends in Trading and Prospects

The Boots Group

In the year to 31 March 2006, revenue from continuing operations of the Boots Group increased by 1.9%. Over the same period BTC revenue increased by 1.7% in total and on a like-for-like basis increased by 0.6%, excluding the deflationary impact of the Pharmaceutical Price Regulation Scheme (PPRS) price reductions and the timing of Easter, in a weak consumer environment. The UK retail market is not expected to strengthen significantly in the near future although Boots will continue, through the series of initiatives outlined in Boots' announcement of its preliminary results for the year ended 31 March 2006, to drive performance. These initiatives include a continued focus on healthcare, the continued development and promotion of own label products, the modernisation of stores and addition of new retail space, and the delivery of cost savings by driving efficiency.

Since 1 April 2006, trading in the Boots Group remains in line with the Boots Board's current expectations for the year ending 31 March 2007.

The Alliance UniChem Group

In the first quarter of 2006, the Alliance UniChem Group delivered another strong financial performance, in line with its expectations outlined at the time of its 2005 preliminary results announcement.

Overall growth in wholesale markets during this period was broadly in line with Alliance UniChem's expectations, taking into account the anticipated effect of regulatory reviews. The retail division again performed strongly and growth continued with a net 17 pharmacies added during the quarter. In England and Wales the number of Medicines Use Reviews conducted by accredited pharmacists continued to grow.

Overall performance from associate businesses continues to be strong.

The Alliance UniChem Group continues to seek opportunities to expand in existing and new markets. Since the beginning of the year it entered the Russian pharmaceutical wholesale market through the acquisition of Apteka Holding Z.A.O. and its Turkish associate, Hedef Alliance Holding A.S., acquired control and majority ownership of an associate in Egypt.

9. Dividend Policy

Following Completion, consistent with the Enlarged Group's enhanced growth strategy, Boots intends to follow a progressive dividend policy which balances returns to shareholders with the need to retain sufficient funds for investment in growth opportunities. In setting its initial dividend, it is expected that, as from the Effective Date, Boots will target a dividend cover of 2.0 to 2.5 times.

10. Risk Factors

You should consider carefully the following information in conjunction with the other information contained in this Prospectus. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information is given at the date of this document, and is not updated. Risks and uncertainties not presently known or that are currently deemed immaterial may also impair the Boots Group's, the Alliance UniChem Group's and the Enlarged Group's business operations and prospects.

A number of factors affect the Boots Group's, the Alliance UniChem Group's and, following Completion, will affect the Enlarged Group's operating results, financial condition and prospects. In particular, you should consider the specific risks summarised below:

- the Enlarged Group may be adversely affected by changes to existing regulation, the introduction of new regulation and/or a failure to comply with regulation;
- the Enlarged Group may be adversely affected by changes and trends in retail and consumer spending and preferences and will also be dependent, in part, on the "Boots" brand and reputation and certain of the Boots Group's, and the Alliance UniChem Group's, trading brands;
- the Enlarged Group will operate in highly competitive markets;
- the Enlarged Group may be required to increase its contributions to cover an increase in the cost of funding future pension benefits and/or to cover funding shortfalls under the Enlarged Group's defined benefit pension schemes;
- the Enlarged Group's strategy is expected to include acquiring businesses and associate interests to complement its business portfolio. Any such acquisitions effected by the Enlarged Group in existing and new geographic markets and related business areas will carry inherent risks;
- the Enlarged Group will be dependent on the continued operation of its warehousing, logistics and information technology systems, and the occurrence of major operational problems could have an adverse effect on the results of the Enlarged Group; and
- the Enlarged Group will have potential exposures to liability claims arising from (amongst other things) the supply of defective products.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Event	Time and/or date
Boots Extraordinary General Meeting	10.00 a.m. on 4 July 2006
Court Meeting in respect of the Scheme	10.30 a.m. on 4 July 2006
Alliance UniChem Extraordinary General Meeting	10.45 a.m. on 4 July 2006
Court Hearing to sanction the Scheme	26 July 2006
Court Hearing to confirm the Reduction of Capital	28 July 2006
Scheme Record Time and record date for the Boots Merger Dividend and the Alliance UniChem Merger Dividend	6.00 p.m. on 28 July 2006
Effective Date of the Scheme and Completion of the Merger	**31 July 2006**
Cancellation of listing of Alliance UniChem Shares	8.00 a.m. on 31 July 2006
Expected date of Admission of, and commencement of dealings in, New Boots Shares and ex-dividend date for the Boots Merger Dividend	8.00 a.m. on 31 July 2006
Crediting of New Boots Shares to CREST accounts	8.00 a.m. on 31 July 2006
Latest date for despatch of share certificates in respect of New Boots Shares and cheques for fractional entitlements	14 August 2006
Payment of Boots Merger Dividend and Alliance UniChem Merger Dividend	3 October 2006

Note: These times and dates are indicative only and the expected dates following the Court Hearings referred to above will depend, among other things, on the date upon which the Court sanctions the Scheme and confirms the Reduction of Capital. If any of the above times and/or dates change, the revised times and/or dates will be notified by announcement through the Regulatory Information Service of the London Stock Exchange.

Unless otherwise stated, all references in this document to times are to London times.

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Sir Nigel Rudd Richard Baker Paul Bateman Jim Smart Guy Dawson Tim Parker Hélène Ploix Dr. Martin Read
Proposed Directors	Stefano Pessina Ornella Barra Steve Duncan George Fairweather Scott Wheway Adrian Loader Patrick Ponsolle Manfred Stach
Secretary	Michael Oliver
Registered Office	1 Thane Road West Nottingham NG2 3AA
Sponsor and Financial Adviser	Goldman Sachs International Peterborough Court 133 Fleet Street London EC4A 2BB
Solicitors	Slaughter and May One Bunhill Row London EC1Y 8YY
Reporting Accountants	KPMG Audit Plc 2 Cornwall Street Birmingham B3 2DL
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA

Please see paragraph 3 of Part I ("Information on the Enlarged Group") of this document for details of the composition of the Boots Board as from the Effective Date.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document, including those in the Parts headed "Summary", "Risk Factors", "Information on the Enlarged Group", "Information on the Merger", "Information on the Boots Group", "Information on the Alliance UniChem Group" and "Operating and Financial Review relating to Boots" constitute "forward-looking statements". In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "prepares", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology. Investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Boots Group, the Alliance UniChem Group or, following Completion, the Enlarged Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Boots Group's, the Alliance UniChem Group's and, following Completion, the Enlarged Group's present and future business strategies and the environment in which the Boots Group, the Alliance UniChem Group and the Enlarged Group will operate in the future. As a result, the Boots Group's, the Alliance UniChem Group's and, following Completion, the Enlarged Group's actual future financial condition, performance and results may differ materially from the plans, targets and expectations set out in the Boots Group's, the Alliance UniChem Group's and the Enlarged Group's forward-looking statements contained in this document or any other forward-looking statement any of them may make. Except as required by the Prospectus Rules, the Listing Rules, the Disclosure Rules, the London Stock Exchange or by law, neither the Boots Group, the Alliance UniChem Group nor the Enlarged Group undertakes any obligation to update any of the forward-looking statements contained in this document or other forward-looking statements any of them may make.

RISK FACTORS

A number of factors affect the Boots Group's, the Alliance UniChem Group's and, following Completion, will affect the Enlarged Group's operating results, financial condition and prospects.

This section describes, amongst other things, certain risks which relate specifically to the Boots Group and the Alliance UniChem Group as discrete groups which will, following Completion, apply to the Enlarged Group.

You should consider carefully the risks and uncertainties described below, together with all other information contained in this document and the information incorporated by reference herein, before making any investment decision.

The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties that are not presently known to the Directors and the Proposed Directors, or which they currently deem immaterial, may also have an adverse effect on the Boots Group's, the Alliance UniChem Group's and, following Completion, the Enlarged Group's, operating results, financial condition and prospects.

RISKS RELATING TO THE BOOTS GROUP AND/OR THE ALLIANCE UNICHEM GROUP AND, FOLLOWING COMPLETION, THE ENLARGED GROUP

The Boots Group and the Alliance UniChem Group each are, and following Completion the Enlarged Group will be, subject to significant regulation and each may be adversely affected by changes to existing regulation, the introduction of new regulation and/or a failure to comply with any such regulation

The Boots Group and the Alliance UniChem Group each operate in regulated markets and are subject to significant governmental regulation.

The Boots Group is subject to regulation in the United Kingdom, the European Union and elsewhere including in relation to the operation of its pharmacies, the dispensing of state-funded prescriptions (in respect of which, in the UK, it is necessary to have a locally issued licence) and also in relation to product composition, storage, packing, labelling, handling and safety.

Changes to existing regulation and/or the introduction of new regulation may adversely affect the Boots Group's operations and the conduct of its business. In particular, as an operator of pharmacies which, amongst other things, derives a significant proportion of its revenue from issuing state funded prescriptions, the Boots Group's operations and profitability may be adversely affected by changes, in the markets in which it operates, to the licensing regime for pharmacies (including any change in the current approach to deregulation of the pharmacy licensing regime in the UK), prescription processing regimes and reimbursement arrangements for state funded pharmacies (including fixed fees payable by consumers).

As an operator of pharmacies in the same markets as the Boots Group (including the UK), the Alliance UniChem Group is subject to the risks identified above in relation to changes in the regulations relating to pharmacies in those markets. In addition, changes to the licensing regime for pharmacies, or restrictions on reimbursement controls for state-funded pharmacies, in the other markets in which the Alliance UniChem Group operates pharmacies may affect the operations and profitability of the Alliance UniChem Group. Changes in the regulatory regime relating to pharmacies may also, through the impact on the wider community of pharmacies, have a consequent impact on the Alliance UniChem Group's wholesale businesses.

As a pharmaceutical wholesaler, the Alliance UniChem Group is also subject to regulation in the countries in which it operates relating to (amongst other things) certain minimum service levels and product ranges, the conditions under which products must be stored, distributed and dispensed, the integrity of the supply chain and the regulations for reimbursement of wholesale products. Changes to existing regulations and the introduction of new regulations may affect the Alliance UniChem Group's wholesale operations. In particular, but without limitation, any changes in current approaches to wholesale licensing, including by way of enhanced restrictions on wholesalers or a reduction in service levels required within the wholesale industry (which may lead to enhanced competition), or to current approaches to the sourcing of medicines or pricing of wholesale products (which could be driven by policy or economic pressures), may affect the Alliance UniChem Group's operations and profitability.

The Enlarged Group will also be subject to significant regulation in relation to health, safety and environmental matters including in relation to the storage and handling of hazardous substances and waste materials. Such regulation is increasingly becoming more stringent.

A failure to comply with any such existing or enhanced regulation to which the Enlarged Group will be subject could result in third party litigation, the closure of facilities, the recall of products, fines, sanctions, increased costs of compliance (in order to, amongst other things, change operating practices) as well as reputational damage.

The Enlarged Group may be adversely affected by changes and trends in retail and consumer spending and preferences and will be dependent, in part, on the "Boots" brand and reputation and certain of the Boots Group's and the Alliance UniChem Group's trading brands

The businesses of the Boots Group and, to a lesser extent, the Alliance UniChem Group are, and the business of the Enlarged Group after Completion will be, subject to changes and trends in retail and consumer spending and preferences in the principal markets in which they operate. In particular, the Boots Group derives a significant proportion of its revenue from the health and beauty retail market in the UK and Ireland. The Enlarged Group's (and particularly the Boots Group's) financial and operating performance will depend, in part, on factors which affect the level and patterns of consumer and retail spending (including changes in consumer preferences and trends and general economic conditions), particularly in the UK. The performance of the Enlarged Group may therefore be affected during, amongst other periods, recessionary periods and/or other periods of low consumer confidence where one or more factors negatively impact the level of consumer and retail spending.

The Boots Group's success and revenues are, and the Enlarged Group's financial results will after Completion also be, dependent, in part, on the strength of the "Boots" brand and the Boots Group's principal trading brands. If (amongst other things) the Enlarged Group is unable to respond to changing consumer preferences and trends (which, as referred to above, is a feature of the health and beauty market), its business may be adversely affected and, in particular, the "Boots" brand, and the Boots Group's trading brands, may be impaired. In addition, in the event that the public perception of the Enlarged Group's existing and future products and services becomes tarnished for whatever reason, the "Boots" brand, and the Boots Group's trading brand names, may be impaired.

The Alliance UniChem Group's success and sales are, and following Completion the Enlarged Group's success and sales will also be, dependent, in part, on the principal trading brands of the Alliance UniChem Group in respect of its wholesale operations and in respect of certain of its non-UK retail pharmacy operations.

The Boots Group and the Alliance UniChem Group operate, and the Enlarged Group will operate, in highly competitive markets

The Boots Group operates in highly competitive markets which, notwithstanding the fact that some of these markets are regulated, face significant competition. The Boots Group's principal market, the health and beauty market in the UK, is highly competitive. Competition in the health and beauty market is based on, amongst other things, price, convenience, the range and quality of products and services offered and reputation. As is indicated in Part III ("Information on the Boots Group") of this document, the Boots Group has a wide variety of competitors including national, regional and local pharmacies, supermarket retailers, convenience stores and department stores and some segments of its health and beauty market have been subject to price deflation in recent years. Supermarket retailers, some of whom have greater financial resources than the Boots Group, have expanded, and continue to expand, into the health and beauty market in the UK (particularly the toiletries and over-the-counter medicines markets). These supermarket retailers have, as a result, rapidly gained market share in the health and beauty market over the past five years.

The Alliance UniChem Group also operates in highly competitive markets which, notwithstanding their regulated nature, are subject to competition from direct competitors and alternative supply sources including importers (parallel trade), domestic opportunistic traders and manufacturers who supply product direct to pharmacies or patients. These could result in adverse pressure on pricing or discounts to customers and, within a regulated commercial environment, could produce unexpected consequences and subject the Alliance UniChem Group to changes in market structure, such as the potential risk of disintermediation. In addition, there is a risk that other participants in the wholesale marketplace may change their business or operational models in a way which could increase competition or otherwise adversely affect the Alliance UniChem Group's operations.

The Enlarged Group may, following Completion, be required to increase its contributions to cover an increase in the cost of funding future pension benefits or to cover funding shortfalls under the Boots Pension Scheme and/or the Alliance UniChem principal defined benefit pension scheme

The Boots Group provides retirement benefits for its former and current employees through a number of pension schemes (including defined benefit pension schemes). The Boots Group's principal defined benefit pension scheme is the Boots Pension Scheme. The Boots Group also operates the Boots Supplementary Pension Plan, a funded approved defined benefit plan which provides top up benefits to senior executives, together with an unfunded, unapproved defined benefit arrangement for senior executives. As at 31 March 2006, based on an IAS 19 assessment undertaken by rolling forward the results of previous assessments, the aggregate value of the assets of these schemes was £3.47 billion and the aggregate value of their liabilities was £3.52 billion, giving rise to a funding shortfall on an IAS 19 basis of £56 million. At that date, the aggregate liabilities and deficits of these schemes, in each case calculated on an IAS 19 basis, were 101% and 2% respectively of Boots' market capitalisation of approximately £3.49 billion.

The Boots Pension Scheme's investment strategy is to seek to match the flow and inflation characteristics of the pension liabilities with assets to reduce the impact of market movements. The Boots Pension Scheme allocates 15% of its assets to equities and property to back longer-term liabilities. The remaining 85% of assets is invested in a diverse portfolio of high quality investment grade bonds of varying maturity, with swap instruments used to improve the matching characteristics with liabilities. However, in the event that the market value of the Boots Pension Scheme's assets decline in relation to its assessed liabilities, Boots may be required to increase its contributions to cover any further funding shortfalls. This could have an adverse impact on the Boots Group's, and following Completion, the Enlarged Group's, operational results and financial condition.

The Alliance UniChem Group also provides benefits to its former and current employees through a number of pension schemes in the UK and other countries (including a number of defined benefit pension schemes). As at 31 December 2005, based on an IAS 19 assessment undertaken by rolling forward the results of previous assessments, the market value of the assets of the Alliance UniChem Group's principal UK defined benefit pension scheme was £120 million and the aggregate value of its accrued liabilities was £168 million, giving rise to a funding shortfall on an IAS 19 basis of approximately £48 million. As at that date, the aggregate liabilities and deficit of the Alliance UniChem Group's principal UK defined benefit pension scheme, in each case calculated on an IAS 19 basis, were 5.8% and 1.7% respectively of Alliance UniChem's market capitalisation. As is described in paragraph 7 of Part XIII ("Additional Information") of this document, pursuant to the terms of the Framework Agreement and with effect from Completion, TBC has agreed to assume the obligations of Alliance UniChem in respect of the Alliance UniChem Group's principal UK defined benefit pension scheme and Boots has agreed to guarantee TBC's obligations.

A particular risk relating to defined benefit pension schemes (and in particular, the Boots Pension Scheme given its size) is the extent to which allowance will need to be made in the assessed value of the liabilities for evidence of increased life expectancy. The cost of funding these benefits depends on a number of factors including the real returns that can be obtained on the assets and also the longevity of the members. If real returns fall or allowance needs to be made for increased longevity then the Enlarged Group may, following Completion, be required to increase its contributions. This could have an adverse impact on the Boots Group's and/or the Alliance UniChem Group's, and following Completion, the Enlarged Group's, operational results and financial condition.

The Enlarged Group will be subject to the inherent risk relating to acquisitions in existing and new geographical markets and related business areas

The Alliance UniChem Group's strategy for continued growth includes, and the Enlarged Group's strategy is expected to include, acquiring businesses, associate interests and other minority investments to complement its existing business portfolio. Failure to select suitable acquisitions, or to identify all relevant risks via due diligence, and then to integrate and manage acquisitions, particularly in new geographic markets, could have an adverse impact on the Alliance UniChem Group's and, following Completion, the Enlarged Group's competitive position and growth prospects. Merger and acquisition arrangements can also involve liabilities or risks in relation to the merger or acquisition process as well as the risks and liabilities that are specific to the nature and value of the assets, businesses or shares purchased. In addition, there can be no guarantee that the Enlarged Group will be able to make minority investments on terms which will provide it with the management influence it seeks.

The occurrence of major operational problems could have an adverse effect on the results of the Boots Group and/or the Alliance UniChem Group and, following Completion, the Enlarged Group

The Boots Group's and the Alliance UniChem Group's operations are each dependent on the continued operation of their warehousing and logistics infrastructure, information technology systems and the operational systems of third parties who supply them. In particular, information systems are a central part of the Boots Group's and the Alliance UniChem Group's business operations and their distribution and logistics functions. The Boots Group and the Alliance UniChem Group are therefore each exposed to the risk of a major failure in logistics, operations, information technology or other key business processes. These failures may be caused by (without limitation) equipment failure, information technology systems failures, raw material supply disruptions, stock handling procedure breakdowns, labour force shortages or work stoppages, events impeding transporting products and failure of third party suppliers.

The Boots Group and the Alliance UniChem Group each have, and following Completion the Enlarged Group will have, potential exposures to liability claims arising from (amongst other things) the supply of defective products and discontinued business activities

Each of the Boots Group and the Alliance UniChem Group has potential exposures to product liability claims arising from the supply of defective products which could, following Completion, have an adverse effect on the Enlarged Group's operational results and financial condition. In addition, the Boots Group (although not the Alliance UniChem Group, as it does not manufacture any products) may have a potential exposure to product liability claims arising from the manufacture of defective products. In particular, the Boots Group, the Alliance UniChem Group and, following Completion the Enlarged Group, could suffer reputational and/or financial consequences arising from infiltration of counterfeit products into the supply chain, re-labelling of products and/or contamination or mishandling issues.

Given its long history and diverse business operations, the Boots Group, and following Completion the Enlarged Group, could also face potential liability in respect of its discontinued business activities.

The Boots Group and the Alliance UniChem Group are each also exposed to risks arising through professional or process error in their pharmacies and/or in the professional services each provides.

Currency exchange associated with the Alliance UniChem Group's operations could adversely affect its, and following Completion, the Enlarged Group's, financial performance

The Alliance UniChem Group, like other international businesses, faces the risk of transactional currency exchange exposure when costs arise in different currencies and the risk arising from the need to translate profits denominated in currencies other than Sterling, principally Euros and Turkish Lira. These risks could adversely affect the Alliance UniChem Group's, and following Completion, the Enlarged Group's reported financial performance.

The Enlarged Group will, owing to the nature of its business operations, potentially be subject to increases in operating costs which could adversely affect its financial performance

Any increase in the Boots Group's, or the Alliance UniChem Group's, and following Completion, the Enlarged Group's, operating costs may adversely affect their profitability. Following Completion, owing to the nature of its business, factors such as increases in oil, gas, electricity, labour, rent and other costs may increase the Enlarged Group's operating costs: increases in oil and gas costs will increase the costs associated with the manufacture and distribution of the Enlarged Group's products, increases in the minimum wages of the Enlarged Group's many hourly paid employees will increase store labour costs and increases in rents (including pursuant to applicable rent review provisions in its leases) will increase the Enlarged Group's operating costs, as it leases a significant proportion of its stores. Most of these factors will be beyond the Enlarged Group's control and there is no guarantee that increases in these costs will be able to be passed on to customers.

RISKS RELATING TO THE MERGER

The following risks are in addition to risks relating to the Boots Group and the Alliance UniChem Group which would be assumed by the Enlarged Group on Completion.

The Enlarged Group expects projected pre-tax cost savings of at least £100 million[1] per annum by the fourth full year[2] following Completion – see paragraph 1 of Part I ("Information on the Enlarged Group") of this document. However, there is a risk that these synergy benefits may fail to materialise, or that they may be materially lower than have been estimated, which would have a significant impact on the profitability of the Enlarged Group going forward.

In addition, if the integration process following Completion proves more difficult than anticipated, there is also a risk to the operations of the Enlarged Group. This integration may take longer than expected, or difficulties relating to the integration, of which the Directors and the Proposed Directors are not yet aware, may arise. In addition, there can be no assurance that the implementation cost of the expected savings programme will not exceed the estimated cost. This could adversely affect the implementation of the Enlarged Group's plans.

1 These statements of estimated costs savings and the one-off costs of achieving them relate to future actions and circumstances which, by their nature, involve risks, uncertainties and other factors. Because of this, the cost savings referred to may not be achieved, or those achieved could be materially different from those estimated.

2 Being the 12 month period ending on the fourth anniversary of Completion.

PART I

INFORMATION ON THE ENLARGED GROUP

1. Background to and Reasons for the Merger

The merger of equals between Boots and Alliance UniChem will create an international pharmacy-led health and beauty group, to be called "Alliance Boots". The Merger is expected to build on the existing strategies of the Boots Group and the Alliance UniChem Group (which are each briefly described in Parts III ("Information on the Boots Group") and IV ("Information on the Alliance UniChem Group") of this document respectively), combining their complementary skills and businesses. The Merger is expected to position better the Enlarged Group to capture the growth opportunities that Boots and Alliance UniChem expect in the health and beauty sectors, while also delivering expected cost savings to enhance the Enlarged Group's efficiency and competitiveness in pursuing those opportunities.

Growth Opportunities in Health and Beauty

As is discussed in Parts III ("Information on the Boots Group") and IV ("Information on the Alliance UniChem Group") of this document, growth in demand for healthcare has been driven by increased consumer health awareness and an ageing population. European governments continue to focus on ways to minimise healthcare costs and, as a result, have implemented policies which are expected to offer significant opportunities for the Enlarged Group. For example:

- European governments have promoted the increased prescription of generics instead of more expensive branded pharmaceuticals. The Enlarged Group is well positioned to benefit from this trend due to its international buying capabilities and the attraction of *Almus*, the Alliance UniChem Group's award-winning brand of generic drugs; and
- the UK government is requiring pharmacists to take a more clinical and proactive role in the health of patients as a result of the new pharmacy contract in England and Wales.

Growth in demand for beauty products has been driven by increasing consumer willingness to spend money on personal care. The Enlarged Group will inherit the Boots Group's position as the leader by revenue in this market in the UK and will have a portfolio of differentiated and leading brands such as "N° 7" and "Soltan", which are already being sold by BRI in selected international markets. Further details are given in Part III ("Information on the Boots Group") of this document.

Europe's Leading Retail Pharmacy Business

The Merger will create an international pharmacy-led health and beauty group comprising approximately 3,000 retail outlets, including associates, of which approximately 2,700 will have a pharmacy, with a wholesale network serving approximately 125,000 outlets.

Approximately 2,600 healthcare outlets in the UK

It is intended that, following an integration period, the Enlarged Group's network will include two retail formats, both branded "Boots", ranging from smaller dispensing pharmacies to larger high street and edge-of-town health and beauty stores including:

- approximately 1,500 community pharmacies where healthcare and dispensing revenues typically account for the majority of revenues. These pharmacies are typically in community and secondary high street locations and have a strong emphasis on healthcare and advice. These are well placed to provide an increased role in the provision of healthcare services, working closely with other primary healthcare providers; and
- approximately 800 destination health and beauty stores, usually offering dispensing and other healthcare services and advice provided in community pharmacies and also providing a broader health and beauty offering, including Boots' private label and other Boots brands such as "N° 7", "Soltan" and "Botanics".

In addition, the Enlarged Group will operate approximately 300 other retail outlets, including freestanding Boots Opticians practices.

International retail

The Enlarged Group will operate over 400 pharmacies in Norway, The Netherlands, Thailand, the Republic of Ireland, Italy and, through an associate, in Switzerland, and will also operate a limited number of other retail outlets.

Wholesale

The Enlarged Group will continue the Alliance UniChem Group's wholesale business model which is designed to provide customers and manufacturers with an efficient system for the distribution of medicines and other healthcare products to pharmacies, supported by value added services. The Alliance UniChem Group's wholesale network (including associates) operates in 13 countries, through around 380 depots.

Enhanced International Growth Opportunities in New Markets

The Enlarged Group will have a pipeline of attractive opportunities in new geographical markets for the expansion of both its retail pharmacy network and its wholesale and distribution activities. The Enlarged Group's ability to access new markets and its attractiveness to potential partners is expected to be enhanced significantly by the management expertise, internationally recognised brands and balance sheet strength of the Enlarged Group.

Complementary management teams

The Enlarged Group's management team offers a strong combination of pharmacy, wholesale, retail, acquisition and brand management experience. The Alliance UniChem Group has an established track record of successful expansion into new geographical markets. Further details are set out in Part IV ("Information on the Alliance UniChem Group") of this document. The Boots Group's management brings proven retail, pharmacy and product development expertise with which to enhance the Enlarged Group's expansion potential.

Internationally recognised brands

The "Boots" brand is expected to increase the Enlarged Group's appeal to potential partners, customers and pharmacists. In addition, the sale of the Enlarged Group's extensive proprietary product range (e.g. "N° 7", "Soltan", "Botanics" and "Almus") to new customers in new international markets is expected to provide incremental benefits.

Strong balance sheet

The Enlarged Group intends to have an investment grade credit rating in order to provide financial flexibility and support attractive acquisitions in international markets.

Projected Annual Pre-Tax Cost Savings of at least £100 million[1] and Incremental Revenue Potential

Cost savings

The Enlarged Group expects annual pre-tax cost savings as a result of the Merger of at least £100 million per annum by the fourth full year[2] following Completion. The savings are expected to be delivered such that over 60% of the run-rate savings will accrue by the second year following Completion and 100% by the fourth year. The cost savings are expected to arise from:

- streamlining the Enlarged Group's purchasing, logistics and wholesale network to deliver savings of approximately £80 million by the fourth full year following Completion; and
- rationalising corporate costs to deliver savings of approximately £20 million by the fourth full year following Completion.

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[1] These statements of estimated cost saving and the one-off costs of achieving them relate to future actions and circumstances which, by their nature, involve risks, uncertainties and other factors. Because of this, the cost savings referred to may not be achieved, or those achieved could be materially different from those estimated.

[2] Being the 12 month period ending on the fourth anniversary of Completion.

The aggregate one-off charges to the income statement, which are all cash costs, related to achieving these synergies, are expected to amount to approximately £53 million. In addition, the Enlarged Group is expected to incur additional capital expenditure of £7 million in relation to the delivery of these synergies.

Revenue opportunities

The Enlarged Group also expects incremental revenue benefits from the increased availability of its leading brands, own-brand products and the Boots Advantage Card across the larger network. In addition, the Enlarged Group is expected to benefit from the application of pharmacy, retail and wholesale skills across the Enlarged Group.

2. Financial Effects of the Merger[1]

On a pro forma basis and assuming the Merger had completed on 1 April 2005, the Boots Group's adjusted profit for the year attributable to equity shareholders, before taking into account the impact of any accounting fair value adjustments, for the year ended 31 March 2006 would have increased compared to the Boots Group's equivalent reported result for that year.

Adjusted profit for the year attributable to equity shareholders is profit for the year attributable to equity shareholders adjusted to exclude IAS 39 timing differences on interest rate and currency hedging, the results of discontinued operations and items classified by Boots as one-off or unusual in nature (including the tax effects thereof)[2]. In the year to 31 March 2006, on a pro forma basis, these one-off or unusual items would have included one-off restructuring costs relating to ongoing trading activities, one-off costs relating to the Merger (including transaction costs and integration costs to achieve the projected synergies), profit on disposal of businesses (including discontinued operations) and profit on disposal of/(amounts written off) non-current assets[3].

An unaudited pro forma statement of the net assets of the Enlarged Group, prepared in accordance with IFRS as at 31 March 2006 is set out, for illustrative purposes only, in Part IX ("Information on the Expected Impact of the Merger on the Assets and Liabilities of the Boots Group") of this document.

As shown in that statement, the illustrative unaudited pro forma consolidated net assets of the Enlarged Group, prepared in accordance with IFRS as at 31 March 2006 and adjusted to reflect the Merger, would have been £5,048.5 million. As at that date, the Boots Group had net assets of £1,651.5 million.

3. Board, Employees and Operating Presence

As from the Effective Date, the Boots Board will comprise the following members:

	Position as from the Effective Date
Sir Nigel Rudd	Chairman
Stefano Pessina	Executive Deputy Chairman
Richard Baker	Chief Executive
George Fairweather	Group Finance Director
Ornella Barra	Wholesale and Commercial Affairs Director
Steve Duncan	Community Pharmacy Director
Scott Wheway	Health and Beauty Retail Director

1 References to the anticipated effects, on a pro forma basis, of the Merger on the Boots Group's adjusted profit for the year attributable to equity shareholders should not be interpreted as a profit forecast nor should this be interpreted to mean that the Boots Group's adjusted profit for the year attributable to equity shareholders following Completion will necessarily exceed or match its published adjusted profit for the year attributable to equity shareholders.

2 For the Boots Group on a standalone basis, the equivalent adjusted profit for the year attributable to equity shareholders is continuing Trading Profit after deducting net finance costs of continuing operations and attributable income taxes, as set out in note 11 on page 103 to the audited financial statements of the Boots Group for the year ended 31 March 2006 in Part VII ("Historical Financial Information Relating to the Boots Group") of this document.

3 This paragraph reflects the expected effect of the divestments contemplated by the undertakings agreed with the OFT.

Guy Dawson	Non-Executive Director
Adrian Loader	Non-Executive Director
Tim Parker	Non-Executive Director
Hélène Ploix	Non-Executive Director
Patrick Ponsolle	Non-Executive Director
Manfred Stach	Non-Executive Director

A further Non-Executive Director will be appointed following the Effective Date.

Stefano Pessina, Executive Deputy Chairman, will be responsible for integration and strategy and will, following Completion, report directly to the Boots Board.

Boots and Alliance UniChem have agreed that as from the Effective Date, Directors nominated by Alliance UniChem will comprise a majority of the Nominations Committee of Boots, the composition and terms of reference of which are summarised in paragraph 8 of Part XII ("Directors, Responsible Persons, Corporate Governance and Employees") of this document.

As a result of the Merger, Ian Meakins will cease to be Chief Executive of Alliance UniChem. On the Effective Date, Jim Smart will cease to be Chief Financial Officer of Boots, and both he and Paul Bateman will leave the Boots Board. Details of the composition of the Boots Board with effect from Completion are set out above.

The Boards of Boots and Alliance UniChem have confirmed to each other that, following Completion, the existing employment rights, including pension rights, of all employees of both the Boots Group and the Alliance UniChem Group will be fully safeguarded.

However, as described in paragraph 4 of Part III ("Information on the Boots Group") of this document, the Boots Group has embarked on a rationalisation of, amongst other things, its supply chain which is expected to result in the loss of approximately 2,250 jobs in the Boots Group. As also described in paragraph 1 of this Part I, there will, following Completion, be a further rationalisation of corporate costs and a streamlining of the Enlarged Group's purchasing, logistics and wholesale network. This may result in further redundancies in the UK. Any such redundancies which result from the Merger are expected to occur across the Enlarged Group.

As described in paragraph 4 of this Part I, Boots has given undertakings to the OFT to use its best endeavours to divest 96 pharmacies following Completion. It is expected that these pharmacies will be divested as going concerns following Completion.

Given the complementary nature of the businesses of the Boots Group and the Alliance UniChem Group outside the UK, no significant impact is currently expected as a result of the Merger on the international businesses of the Enlarged Group.

Paragraph 6 of Part II ("Information on the Merger") and paragraph 5 of Part XIII ("Additional Information") of this document set out details of the effect of the Merger and the Scheme on the Alliance UniChem Share Schemes and the Boots Share Schemes.

It is intended that the Enlarged Group will maintain a substantial operating presence in Nottingham, Feltham, Weybridge and Chessington in relation to the Enlarged Group's UK retail and wholesale businesses. It is intended that the Enlarged Group will maintain a small head office in central London.

4. OFT Undertakings

The OFT accepted undertakings from Boots in lieu of reference of the Merger to the Competition Commission on 25 May 2006. Pursuant to the undertakings, Boots has agreed that it will, following Completion, use its best endeavours to divest a pharmacy in each of the 96 areas in which the OFT has identified a prospect of substantial lessening of competition. Under the terms of the undertakings, the sale of the relevant 96 pharmacies must take place within an agreed confidential timeframe to purchasers approved by the OFT. If the divestments have not completed within the agreed timetable, the OFT may require a trustee to be appointed to sell pharmacies in the relevant areas on behalf of Boots on such reasonable terms and conditions (including as to price) as the trustee considers appropriate to effect an expedient sale. It is estimated that the aggregate revenue attributable to these 96 pharmacies would represent less than 1% of the Enlarged Group's combined revenue. The Directors and the Proposed Directors do not believe that the divestments contemplated by the undertakings will have a material effect on the Enlarged Group.

Save as otherwise provided, the information contained in this Part I does not take into account the divestments contemplated by the undertakings agreed with the OFT.

5. Dividend Policy

Following Completion, consistent with the Enlarged Group's enhanced growth strategy, Boots intends to follow a progressive dividend policy which balances returns to shareholders with the need to retain sufficient funds for investment in growth opportunities. In setting its initial dividend, it is expected that, as from the Effective Date, Boots will target a dividend cover of 2.0 to 2.5 times.

6. Proposed Change of Name

A resolution to change the name of Boots to "Alliance Boots plc", conditional on Completion, will be put to Boots Shareholders at the Boots Extraordinary General Meeting.

PART II

INFORMATION ON THE MERGER

1. Introduction

On 3 October 2005, the Boards of Boots and Alliance UniChem announced that they had agreed the terms of a recommended merger to create the Enlarged Group, an international pharmacy-led health and beauty group to be called "Alliance Boots".

On announcement, the Merger was subject to (amongst other things) the satisfaction or waiver of certain pre-conditions, including completion of the disposal of BHI and receipt of appropriate competition clearances.

The Boots Group completed the disposal of BHI on 31 January 2006 for an aggregate consideration of approximately £1.93 billion on a debt free, cash free basis. Boots paid the Special Dividend of, in aggregate, approximately £1.43 billion, on 24 February 2006 and, after anticipated taxation and other costs associated with the BHI transaction of approximately £100 million, retained approximately £400 million of the proceeds of the BHI disposal for investment in the Boots Group and the Enlarged Group. Of this amount, £85 million has been paid to the Boots Pension Scheme and a further £250 million will be invested in, amongst other things, the Boots Group's supply chain.

On 1 December 2005, the European Commission agreed to Boots' and Alliance UniChem's request to have the Merger considered by the UK competition authorities. On 22 February 2006, the OFT published its decision that, subject to undertakings being agreed in relation to the disposal of a number of stores, the Merger would not be referred to the Competition Commission. The CAT considered an application for review of the OFT's decision to accept undertakings in lieu of reference of the Merger to the Competition Commission and announced on 9 May 2006 that it had dismissed this application. On 25 May 2006, Boots agreed undertakings with the OFT. Further details of these undertakings are set out in paragraph 4 of Part I ("Information on the Enlarged Group") of this document .

The implementation of the Scheme remains subject to the satisfaction or waiver of the competition condition referred to in paragraph 3 below in this Part II.

2. Summary of the Merger Terms

It is intended that the Merger, which is being unanimously recommended by the Boards of Boots and Alliance UniChem, will be implemented by means of the Scheme. Under the terms of the Scheme, the Alliance UniChem Shares will be cancelled and, on the Effective Date, Alliance UniChem Shareholders will receive:

for each Alliance UniChem Share **1.332 New Boots Shares**

and so in proportion to any other number of Alliance UniChem Shares held.

On the Effective Date, Alliance UniChem will become a wholly-owned subsidiary of Boots.

Assuming the issue of the maximum number of New Boots Shares pursuant to the Scheme and that no Boots Shares are issued in the period from the publication of this document to the Effective Date, the enlarged issued ordinary share capital of Boots would be held, on the Effective Date, as to 49.8% by Alliance UniChem Shareholders and as to 50.2% by the existing Boots Shareholders. On this basis, the Merger values Alliance UniChem at approximately £3.40 billion, based on the closing share price of the Boots Shares on 31 May 2006, being the last practicable Business Day prior to publication of this document.

The New Boots Shares will be issued credited as fully paid, will rank equally with the existing Boots Shares and will be entitled to all dividends and other distributions declared or paid by Boots by reference to a record date on or after the Effective Date. The New Boots Shares will not carry any right to participate in any dividends and other distributions declared or paid by Boots by reference to a record date prior to the Effective Date.

Fractions of New Boots Shares will not be issued to Alliance UniChem Shareholders pursuant to the Scheme. Instead, fractional entitlements will be aggregated and sold in the market with the net proceeds of such sales, to the extent that they exceed £3, being paid to the persons entitled thereto.

Alliance UniChem Shareholders will retain all rights and interest in any dividends and other distributions declared or paid by Alliance UniChem by reference to a record date prior to the Effective Date.

3. Conditions to the Implementation of the Scheme

In summary, the implementation of the Scheme is conditional upon:

- approval of the Scheme by a majority in number representing 75% or more in value of the Alliance UniChem Shareholders entitled to be present and voting, either in person or by proxy, at the Court Meeting;
- the special resolution to approve matters to give effect to the Scheme being duly passed by the requisite majority of Alliance UniChem Shareholders at the Alliance UniChem Extraordinary General Meeting;
- the sanction of the Scheme and confirmation of the Reduction of Capital by the Court (in either case, with or without modification, on terms acceptable to Alliance UniChem and Boots) and the delivery of an office copy of the Court order sanctioning the Scheme and of the Court order confirming the Reduction of Capital to the Registrar of Companies, and the registration of the Court order confirming the Reduction of Capital by him;
- the passing by the Boots Shareholders of the Merger Resolutions (save for any such resolution which is not passed as a result of the death, incapacity or unwillingness to act of the person named in the resolution);
- the Admission of the New Boots Shares;
- no material adverse change occurring in respect of the Boots Group or, as the case may be, the Alliance UniChem Group;
- neither the Merger nor the Scheme being rendered partially or wholly impossible or significantly impeded as a result of legislation, regulation, any decision of a court or any action taken by any governmental authority;
- the satisfaction or waiver of the competition condition including, with limitation, the period within which an application may be made for review of the decisions of the OFT and the CAT in connection with the Merger having expired or any appeal that may be made having been dismissed; and
- the satisfaction or waiver of the other Conditions, which are considered to be customary for a transaction of this nature.

Boots reserves the right to waive (amongst other things) the Condition relating to any material adverse change relating to the Alliance UniChem Group and, with Alliance UniChem's consent, the competition Condition referred to above and Alliance UniChem reserves the right to waive (amongst other things) the Condition relating to any material adverse change relating to the Boots Group.

The Conditions relating to the passing of the Merger Resolutions, the approval by the Alliance UniChem Shareholders of the resolutions to be proposed at the Court Meeting and the Alliance UniChem Extraordinary General Meeting, the sanction of the Scheme and confirmation of the Reduction of Capital and the Admission of the New Boots Shares are not capable of being waived in whole or in part.

4. The Framework Agreement and Inducement Fees

On 3 October 2005, Boots and Alliance UniChem entered into the Framework Agreement in connection with the Merger which has governed, and will continue to govern, their relationship until the Merger becomes effective or lapses.

Pursuant to the Framework Agreement, Boots and Alliance UniChem have each undertaken to take all steps as are reasonable and necessary to implement the Merger and have each given certain undertakings in relation to the conduct of their business in the period prior to the implementation of the Merger. Each of the parties has also agreed, subject to certain limited exceptions, not to solicit any competing proposal to the Merger.

The Framework Agreement terminates in certain circumstances, including where the Boots Shareholders fail to pass any of the Merger Resolutions (save for any such resolution which is not passed as a result of the death, incapacity or unwillingness to act of the person named in the resolution), where the Alliance UniChem Shareholders fail to pass any of the resolutions to be proposed at the Court Meeting or the Alliance UniChem Extraordinary General Meeting, where the Court fails to sanction the Scheme and also where either of the Boots Board or the Alliance UniChem Board withdraws, qualifies or adversely modifies its recommendation of the Merger.

In summary, Boots has agreed to pay Alliance UniChem an inducement fee of £43 million (inclusive of any amounts in respect of VAT) if:

- the Boots Directors recommend an alternative offer (howsoever structured) for Boots;
- an alternative offer (howsoever structured) for Boots becomes or is declared unconditional;
- the Boots Directors withdraw, qualify or adversely modify their recommendation of the Merger; or
- the Boots Shareholders fail to pass the Merger Resolutions (save for any such resolution which is not passed as a result of the death, incapacity or unwillingness to act of the person named in the resolution).

In summary, Alliance UniChem has agreed to pay Boots an inducement fee of £31 million (inclusive of any amounts in respect of VAT) if, after an announcement of a firm intention to make an offer (howsoever structured) for Boots by a person with a direct or indirect controlling interest in a business, the principal activity of which is national pharmaceutical wholesale or pharmacy activity in the United Kingdom, any of the following occurs:

- the Alliance UniChem Directors recommend an alternative offer (howsoever structured) for Alliance UniChem;
- an offer (howsoever structured) for Alliance UniChem becomes or is declared unconditional;
- the Alliance UniChem Directors withdraw, qualify or adversely modify their recommendation of the Merger; or
- the Alliance UniChem Shareholders fail to pass the resolutions to be proposed at the Court Meeting or the Alliance UniChem Extraordinary General Meeting.

Pursuant to the terms of the Framework Agreement and with effect from Completion, TBC has agreed to assume the obligations of Alliance UniChem in respect of the Alliance UniChem Group's principal defined benefit pension scheme and Boots has agreed to guarantee such obligations of TBC.

Further details on the Framework Agreement, and the inducement fees, are provided in paragraph 9 of Part XIII ("Additional Information") of this document.

5. Irrevocable Undertaking

Boots has received an irrevocable undertaking to vote in favour of the resolutions to be proposed at the Court Meeting and at the Alliance UniChem Extraordinary General Meeting from Stefano Pessina, the Executive Deputy Chairman of Alliance UniChem, and a Luxembourg company controlled by him, in respect of 108,818,474 Alliance UniChem Shares, representing approximately 30% of Alliance UniChem's existing issued share capital.

Following Completion, Mr Pessina will indirectly hold approximately 15% of the enlarged issued share capital of Boots, a holding Mr Pessina has indicated he intends to retain for the long term.

The circumstances in which this undertaking ceases to be binding are described in further detail in paragraph 9 of Part XIII ("Additional Information") of this document and include, in summary, circumstances where:

- the Boots Shareholders fail to pass the Merger Resolutions (save for any such resolution which is not passed as a result of the death, incapacity or unwillingness to act of the person named in the resolution);
- the Alliance UniChem Shareholders fail to pass the resolutions to be proposed at the Court Meeting or the Alliance UniChem Extraordinary General Meeting;
- the Boots Board either withdraws, qualifies or adversely modifies its recommendation of the Merger or recommends an offer (howsoever structured) for Boots;
- an offer (howsoever structured) is made for Boots which is not, or has not been, recommended by the Boots Directors, and which becomes wholly unconditional; or
- an alternative offer (howsoever structured) is made for Alliance UniChem and acceptances are received in respect of such offer amounting to in aggregate, more than 45% of the Alliance UniChem Shares.

6. Further Details of the Merger

Structure of the Merger

It is intended that the Merger will be effected by means of the Scheme, which is a scheme of arrangement between Alliance UniChem and its shareholders under section 425 of the Companies Act. The purpose of the Scheme is to provide for Boots to become the owner of the entire issued share capital of Alliance UniChem. This is to be achieved by the cancellation of the Scheme Shares held by Alliance UniChem Shareholders and the application of the reserve arising from such cancellation in paying up in full a number of new Alliance UniChem Shares which is equal to the number of Scheme Shares cancelled and issuing the same to Boots and/or to its nominees.

For the Scheme to become effective, a special resolution implementing the Scheme must be passed by Alliance UniChem Shareholders at the Alliance UniChem Extraordinary General Meeting and the Scheme must be approved by a majority in number of those Alliance UniChem Shareholders, present and voting either in person or by proxy, at the Court Meeting, representing 75% or more in value of all Alliance UniChem Shares held by such Alliance UniChem Shareholders.

The Scheme also requires the sanction of the Court and the confirmation by the Court of the Reduction of Capital, as well as satisfaction or waiver of the other Conditions.

If the Scheme becomes effective, it will be binding on all Scheme Shareholders irrespective of whether or not they attend or vote in favour of the Scheme at the Court Meeting or in favour of the special resolution to be proposed at the Alliance UniChem Extraordinary General Meeting.

Boots reserves the right to implement the Merger by means of a takeover offer. In such circumstances, the Merger will be implemented on the same terms and conditions, so far as applicable, as those which would apply to the implementation of the Merger by means of the Scheme.

Dividends

Boots and Alliance UniChem each intend to pay (subject to Completion) a merger dividend to their respective shareholders. Each such merger dividend will be paid in accordance with Boots' and Alliance UniChem's respective current dividend policies as described below.

Boots

On 18 May 2006, Boots announced its preliminary results in respect of the year ended 31 March 2006 and announced a proposed final dividend for that financial year of 21.0 pence per Boots Share. The ex-dividend date for such final dividend was 31 May 2006 and its record date was 2 June 2006. This final dividend will be submitted for approval at the Boots annual general meeting scheduled to be held on 20 July 2006. The New Boots Shares will not carry any right to participate in this final dividend.

Prior to the Effective Date, it is intended that the Boots Board will resolve to pay (subject to Completion) the Boots Merger Dividend to those Boots Shareholders who are on the register of members of Boots at the close of business on the Business Day immediately prior to the Effective Date. The amount of such Boots Merger Dividend will be an amount equal to the anticipated dividend per Boots Share for the financial year ending 31 March 2007 pro-rated for the number of days elapsed in the period from 31 March 2006 to the Effective Date less, where applicable, the amount of any interim dividend which is paid or payable by Boots in accordance with its current dividend policy in respect of the current financial year ending on 31 March 2007. Any such interim dividend will only be considered in the event that Completion occurs after 31 July 2006.

Assuming Completion occurs on 31 July 2006, the amount of the Boots Merger Dividend will be 10.0 pence per Boots Share, the record date will be 6.00 p.m. on 28 July 2006, the ex-dividend date will be 31 July 2006 and the payment date will be 3 October 2006. The New Boots Shares will not carry any right to participate in the Boots Merger Dividend.

Alliance UniChem

Prior to the Effective Date, it is intended that the Alliance UniChem Board will resolve to pay (subject to Completion) the Alliance UniChem Merger Dividend to those Alliance UniChem Shareholders who are on the register of members of Alliance UniChem at the close of business on the Business Day immediately prior to the Effective Date. The amount of the Alliance UniChem Merger Dividend will be an amount equal to the anticipated dividend per Alliance UniChem Share for the financial year ending 31 December 2006 pro-rated for the number of days elapsed in the period from 31 December 2005 to the Effective Date less, where applicable, the amount of any interim dividend which is paid or payable by Alliance UniChem in accordance with its current dividend policy in respect of the current financial year ending on 31 December 2006. Any such interim dividend will only be considered in the event that Completion occurs after 31 July 2006.

Assuming Completion occurs on 31 July 2006, the amount of the Alliance UniChem Merger Dividend will be 13.25 pence per Alliance UniChem Share, the record date will be 6.00 p.m. on 28 July 2006, and the payment date will be 3 October 2006. The Alliance UniChem dividend re-investment plan will not apply to the Alliance UniChem Merger Dividend.

Enlarged Group

Following Completion, consistent with the Enlarged Group's enhanced growth strategy, Boots intends to follow a progressive dividend policy which balances returns to shareholders with the need to retain sufficient funds for investment in growth opportunities. In setting its initial dividend, it is expected that, as from the Effective Date, Boots will target a dividend cover of 2.0 to 2.5 times.

Boots has a 31 March financial year end. Assuming Completion occurs on 31 July 2006 and the Boots Merger Dividend and the Alliance UniChem Merger Dividend are each paid as contemplated above, it is currently intended that no further interim dividend will be paid by Boots in respect of the financial year ending on 31 March 2007. The first dividend payable on the Boots Shares is therefore likely to be the final dividend in respect of the year ending 31 March 2007.

Shortly following Completion, Boots intends to write to holders of the New Boots Shares to offer them the opportunity to join Boots' corporate nominee arrangements and thereby be entitled to participate in the Boots dividend re-investment plan.

Alliance UniChem Share Schemes

Alliance UniChem operates four employee share schemes, being the Alliance UniChem 1997 Share Option Scheme, the Alliance UniChem Share Incentive Plan, the Alliance UniChem Savings Related Share Option Scheme 1990 and the Ian Meakins Share Incentive Plan. The effect of the Scheme on the Alliance UniChem Share Schemes can briefly be summarised as follows:

- *The Alliance UniChem 1997 Share Option Scheme* (the "1997 Scheme") — The outstanding options are currently subject to performance conditions. However, options under the 1997 Scheme can be exercised free of these performance conditions from the date the Court sanctions the Scheme.

  Outstanding UK HM Revenue & Customs approved options will lapse six months after the date the Court sanctions the Scheme, but cannot be exercised after the Effective Date. Outstanding unapproved options (other than certain options held by optionholders resident in France) will lapse on the Effective Date.

  The terms of options held for less than four years by optionholders resident in France will be amended so that they will not lapse on the Effective Date but will remain outstanding and exercisable until they lapse at the end of the six month period starting on the fourth anniversary of the date of grant of the options. This will allow those options to continue to qualify for beneficial tax treatment.

- *The Alliance UniChem Share Incentive Plan* (the "SIP") — Only Alliance UniChem Directors participate in the SIP. Allocations (non-binding statements of intention to make an award under the SIP) outstanding under the SIP will vest subject to the attainment of the performance targets on the date the Court sanctions the Scheme. Awards outstanding under the SIP are already exercisable and will remain exercisable for three months following the date the Court sanctions the Scheme and will then lapse. George Fairweather, the only Alliance UniChem Director who holds awards under the SIP (details of which are set out in paragraph 6 of Part XII ("Directors, Responsible Persons, Corporate Governance and Employees") of this document) will exercise options granted pursuant to those awards immediately following the sanction of the Scheme by the Court and will participate in the Scheme on the same basis as other Alliance UniChem Shareholders.

  Alliance UniChem's remuneration committee has determined that all of the applicable performance targets would be met in full at the time of the Merger, and so the allocations will vest in full. Accordingly, following the sanction of the Scheme by the Court, the Alliance UniChem Directors who hold allocations under the SIP will receive from the UniChem 1992 Employee Trust (the "Trust") all of the Alliance UniChem Shares subject to their respective allocations. Sufficient of the Alliance UniChem Shares to which each Alliance UniChem Director is entitled will be sold on their behalf to meet any tax liability that arises on vesting. The remainder of the Alliance UniChem Shares acquired by each Alliance UniChem Director will be subject to the Scheme. Each Alliance UniChem Director who participates in the SIP has agreed to continue to hold the New Boots Shares ultimately acquired in respect of the Alliance UniChem Shares received under the SIP until the earlier of the date he would have been able to realise the value of his allocation under the SIP if the Merger had not occurred or the date he ceases to be employed by the Enlarged Group.

- *The Alliance UniChem Savings Related Share Option Scheme 1990* (the "1990 Scheme")— Optionholders will be entitled to exercise their options within the period of six months from the date the Court sanctions the Scheme, or, if earlier, within six months of the next bonus date following the posting of this document on which optionholders will be entitled to a bonus under their respective savings contracts. Options can be exercised to the extent possible with the amount repaid under their related savings contract. Boots will make a proposal to optionholders under the 1990 Scheme inviting them to exchange their options for equivalent options over New Boots Shares. Options can be exchanged within a period of six months from the date the Court sanctions the Scheme. Options not exchanged or exercised within this six month period will lapse. Options which are exchanged will be exercisable in accordance with the rules of the 1990 Scheme.

- *Ian Meakins Share Incentive Plan* (the "Ian Meakins SIP") — Mr Meakins holds an option over 119,946 Alliance UniChem Shares. This option can be exercised at any time up until 1 December 2014, when it will lapse.

Mr Meakins is also entitled to receive an award of up to a maximum of 153,571 Alliance UniChem Shares in March 2008, subject to satisfaction of performance conditions and certain additional requirements. Alliance UniChem may agree with Mr Meakins that he will receive a cash payment equal to the value of these entitlements, after taking into account the extent to which the performance conditions have been satisfied as at the date of the Merger, and to cancel them at that time.

Alliance UniChem Shares held by the trustee of the Trust will be applied to meet exercises of options over Alliance UniChem Shares before the Scheme Record Time. New Alliance UniChem Shares will be issued in respect of exercises of options over Alliance UniChem Shares which are satisfied after the Scheme Record Time as the trustee of the Trust, as an Alliance UniChem Shareholder, will participate in the Scheme and will not be able to transfer any Alliance UniChem Shares that it holds after the Scheme Record Time. Accordingly, participants under the Alliance UniChem Share Schemes who acquire Alliance UniChem Shares from the Trust before the Scheme Record Time will participate in the Scheme on the same basis as other Alliance UniChem Shareholders. Any Alliance UniChem Shares issued to participants after the Scheme Record Time will not be bound by the Scheme but will be automatically acquired by Boots on the same terms as under the Scheme pursuant to an amendment to Alliance UniChem's Articles of Association to be proposed at the Alliance UniChem Extraordinary General Meeting. Participants in the 1990 Scheme who exchange their options over Alliance UniChem Shares for options over Boots Shares and any continuing optionholders under the 1997 Scheme may receive New Boots Shares from the Trust or have New Boots Shares issued to them by Boots when they exercise their options after the Scheme becomes effective.

Further information relating to the effect of the Scheme on the holders of options and awards granted under the Alliance UniChem Share Schemes can be found in Part XIII ("Additional Information") of this document.

Boots Share Schemes

The Merger will have no impact on the employee share schemes operated by Boots. However, before the Effective Date Boots intends to invite eligible employees to participate in the Boots Bonus Co-Investment Plan ("Co-Investment Plan") in respect of bonuses payable for 2005/06. The performance targets to which any awards granted under the Co-Investment Plan following that invitation are subject may be adjusted by the Remuneration Committee following Completion to ensure that they remain appropriate to the Enlarged Group.

Further information is given in Part XIII ("Additional Information") of this document.

Scheme Document

The Merger will be subject to the applicable requirements of the City Code. The Scheme Document, setting out the details of the Merger, will be despatched to Alliance UniChem Shareholders on the date of publication of this document.

7. New Boots Shares

It is expected that the New Boots Shares will be issued, and that Admission of the New Boots Shares will become effective, on the Effective Date (which is currently expected to be 31 July 2006).

Further details of the rights attaching to the New Boots Shares are summarised in paragraph 3 of Part XIII ("Additional Information") of this document.

Application has been made to the UK Listing Authority for the New Boots Shares proposed to be issued in connection with the Merger to be admitted to the Official List and to the London Stock Exchange for the New Boots Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. Admission is expected to take place on the Effective Date.

The existing Boots Shares are already admitted to CREST. It is expected that all of the New Boots Shares, when issued, will be capable of being held and transferred by means of CREST. It is expected that the New Boots Shares will trade under ISIN GB00B0P7Y252.

The New Boots Shares will be created under the Companies Act and the legislation made thereunder and will be issued in registered form and will be capable of being held in certificated and uncertificated form.

Fractions of New Boots Shares will not be issued to Alliance UniChem Shareholders pursuant to the Scheme. Instead, fractional entitlements will be aggregated and sold in the market with the net proceeds of such sales, to the extent that they exceed £3, being paid to the persons entitled thereto.

8. De-listing of Alliance UniChem

Prior to the Effective Date, Boots and/or Alliance UniChem intend to apply to the Financial Services Authority for the listing of the Alliance UniChem Shares to be cancelled and to the London Stock Exchange for the Alliance UniChem Shares to cease to be admitted to trading on the London Stock Exchange's main market for listed securities. This is expected to take place on the Effective Date.

9. Overseas Shareholders

United States

The New Boots Shares will not be registered under the US Securities Act and will be issued in the United States pursuant to the Scheme in reliance on the exemption from registration provided by Section 3(a)(10) of that Act. Boots and Alliance UniChem will advise the Court that its sanctioning of the Scheme will be relied upon to establish the availability of this exemption.

The New Boots Shares will not be registered under the securities laws of any state of the United States, and will be issued in the United States pursuant to the Scheme in reliance on available exemptions from such state law registration requirements.

Any Alliance UniChem Shareholder in the United States that is not an affiliate, for the purposes of the US Securities Act, of Boots or Alliance UniChem prior to the implementation of the Scheme and is not an affiliate of Boots following implementation of the Scheme may sell New Boots Shares received pursuant to the Scheme in ordinary secondary market transactions without restriction under the US Securities Act.

Any Alliance UniChem Shareholder in the United States that is an affiliate of Boots or Alliance UniChem prior to the implementation of the Scheme and/or is or becomes an affiliate of Boots following implementation of the Scheme will be subject to timing, manner of sale and volume restrictions on the sale of New Boots Shares received pursuant to the Scheme pursuant to Rule 145(d) under the US Securities Act. For these purposes, an "affiliate" of any person is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, that person. Alliance UniChem Shareholders in the United States that believe they are or may be "affiliates" of Boots or Alliance UniChem should consult their own legal advisors prior to any sale of New Boots Shares received pursuant to the Scheme.

Neither the SEC nor any US state securities commission has approved or disapproved of the New Boots Shares or passed an opinion upon the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

Alliance UniChem Shareholders who are citizens or residents of the United States should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.

Canada

The New Boots Shares issued to or for the benefit of any resident of Canada pursuant to the Scheme will not be qualified for sale under the securities law of any province or territory of Canada and will be subject to resale restrictions.

Alliance UniChem Shareholders who are residents of Canada should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.

Other Jurisdictions

This document and any accompanying documents are not being made available to Alliance UniChem Shareholders with registered addresses in any Restricted Jurisdiction and may not be treated as an invitation to subscribe for any New Boots Shares by any person resident or located in such jurisdictions or any other Restricted Jurisdiction.

The New Boots Shares have not been, and will not be, registered under the applicable securities laws of any Restricted Jurisdiction. Accordingly, the New Boots Shares may not be offered, sold, delivered or transferred, directly or indirectly, in or into any Restricted Jurisdiction to or for the account or benefit of any national, resident or citizen of any Restricted Jurisdiction.

The implications of the Scheme for Overseas Shareholders may be affected by the laws of relevant jurisdictions. Such Overseas Shareholders should inform themselves about, and observe, any applicable legal requirements. Any person outside the UK who is resident in, or who has a registered address in, or is a citizen of, an overseas jurisdiction and who is to receive New Boots Shares pursuant to the Scheme should consult his or her professional advisers and satisfy himself or herself as to the full observance of the laws of the relevant jurisdiction in connection with the Scheme, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such jurisdiction.

This document has been prepared for the purposes of complying with English law, the Prospectus Rules and the Listing Rules, and the information disclosed may not be the same as that which could have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside the United Kingdom.

Overseas Shareholders should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.

PART III

INFORMATION ON THE BOOTS GROUP

The selected historical financial information and other historical financial information in relation to the Boots Group referred to in this Part III has, unless otherwise stated, been extracted without material adjustment from the audited consolidated financial statements of Boots for the financial years ended 31 March 2006, 31 March 2005 and 31 March 2004.

Investors should read the whole of this document and the documents incorporated herein by reference and should not just rely on the financial information set out in this Part III.

1. Introduction

The Boots Group is a health and beauty group with operations in retail and manufacturing. Its products are sold in 17 countries, it employs approximately 63,000 people in total and operates approximately 1,500 health and beauty stores with an aggregate selling area of approximately 680,000 square metres. The Boots Group sells a wide range of products under the "Boots" brand and also owns a number of UK market leading brands by revenue such as "Nº 7" and "Soltan". The Boots Group's international division, BRI, has "Boots" branded implants in host retailers' stores in 14 countries as well as approximately 95 owned stores in Asia. For the year ended 31 March 2006, the Boots Group generated Trading Profit from continuing operations of £335.9 million on revenue from continuing operations of £5,027.4 million. As at 31 March 2006, the Boots Group had net assets of £1,651.5 million.

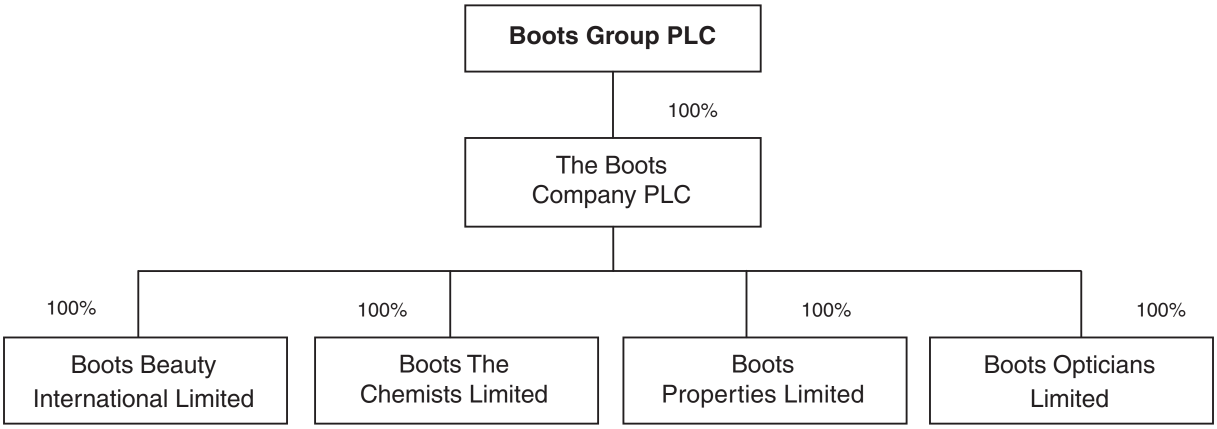
2. History

The Boots Group was formed in the late nineteenth century to carry on the business now known as Boots The Chemists. Under Jesse Boot's leadership, the Boots Group grew to a nationwide chain of stores. TBC, the then parent company of the Boots Group, was floated on the London Stock Exchange in 1923 and, following the Second World War, developed international prescription pharmaceuticals and agrochemicals businesses in addition to its retail businesses. The Boots Group disposed of the agrochemicals business in 1983 and the prescription pharmaceuticals business in 1995.

The last three years have been a period of significant change for the Boots Group. Over that period, the Boots Group has refocused on its core health and beauty business and returned, through share-buybacks and dividends, approximately £2.7 billion to its shareholders. The Boots Group exited its dentistry, laser eye-correction, laser hair removal, chiropody and Handbag businesses in 2004 and 2005 and, on 31 January 2006, completed the sale of its international consumer healthcare division, BHI, to Reckitt Benckiser for an aggregate consideration on a debt free, cash free basis of approximately £1.93 billion.

3. Corporate Structure

Boots is the parent company of the Boots Group. A list of Boots' subsidiary undertakings, all of which are UK incorporated and which are considered by Boots to be likely to have a significant effect on the assessment of the assets and liabilities, the financial position and/or the profits and losses of the Boots Group, are set out in paragraph 10 of Part XIII ("Additional Information") of this document.



Following Completion, Alliance UniChem will become a direct subsidiary of Boots. Further information on Alliance UniChem is set out in Part IV ("Information on the Alliance UniChem Group") of this document.

4. Business Overview

The Boots Group is a leading health and beauty retailer in the UK.

The Boots Group operates three principal businesses: Boots The Chemists ("BTC"), Boots Opticians ("BOL") and Boots Retail International ("BRI").

BTC comprises the Boots Group's health and beauty retail business in the UK and the Republic of Ireland. BOL comprises the Boots Group's optical and eye-care business in the UK. BRI comprises the Boots Group's international business. These businesses are supported by (amongst others) the Boots Group's manufacturing functions.

The Boots Group's strategy during the past three years has been to create shareholder value by investing to become a more modern, efficient and competitive health and beauty retail business.

To implement this strategy, Boots has sought to:

- refocus on its core health business by, in particular, investing in its dispensing category;
- reinforce its comprehensive beauty and toiletries offering and grow its own-brand and exclusive product ranges such as "Nº 7", "Soltan" and "17", which Boots believes helps to differentiate its products from those of its competitors;
- offer better value for its customers by, in particular, reducing prices on its products (particularly in its toiletries category) and to grow its "Advantage Card" membership;
- open new stores, mainly in edge-of-town locations, and modernise its stores to improve their convenience and accessibility;
- offer expert customer care including by investing in training of its pharmacists; and
- invest in its supply and information technology functions to make them more efficient.

Further details of the Boots Group's strategy, and the Boots Group's operating and financial performance, are given in Part V ("Operating and Financial Review relating to Boots") of this document.

Summary of Revenue by Business and Geographic Region

A summary of revenue, under IFRS, for the two financial years ended 31 March 2006 and turnover, under UK GAAP, for the two years ended 31 March 2005, by business segment and geographic region is set out in the table below.

		IFRS		UK GAAP	
		2006 £million	2005 £million	2005 £million	2004 £million
By business	Note				
BTC		**4,732.0**	4,651.1	4,651.1	4,479.0
BOL		**174.3**	180.3	182.5	199.7
BRI	1	**56.3**	46.4	46.4	41.6
Group and other	2	**64.8**	57.7	67.7	90.1
BHI	3	**—**	—	494.2	476.0
Continuing operations		**5,027.4**	4,935.5	5,441.9	5,286.4
BHI	3	**430.9**	494.2	—	—
Other discontinued operations	4	**12.9**	41.0	28.8	40.0
Total		**5,471.2**	5,470.7	5,470.7	5,326.4
By geographic region (destination)					
UK		**4,888.8**	4,867.0	4,867.0	4,761.7
Rest of europe		**384.0**	396.6	396.6	370.5
Rest of world		**198.4**	207.1	207.1	194.2
Total		**5,471.2**	5,470.7	5,470.7	5,326.4

1 BRI also generated inter-segmental revenue of £1.6 million (2005 £1.9 million, 2004 £1.4 million). Total revenue including inter-segmental revenue was £57.9 million (2005 £48.3 million, 2004 £43.0 million).

2 Group and other includes Boots Manufacturing third party revenue of £60.1 million, (2005 IFRS £55.2 million, 2005 UK GAAP £64.8 million, 2004 UK GAAP £68.4 million).

3 BHI was sold to Reckitt Benckiser on 31 January 2006 and is shown as discontinued in the IFRS presentation for both 2005 and 2006. The UK GAAP table has not been restated. BHI also generated inter-segmental revenue of £26.1 million, (2005 £28.5 million, 2004 £28.6 million). Total revenue including inter-segmental revenue was £457.0 million (2005 £522.7 million, 2004 £504.6 million).

4 Other discontinued operations include laser eye correction (LASIK), dentistry, chiropody, laser hair removal, Portland Ceramics Limited and the Handbag joint venture businesses. The IFRS presentation also includes direct third party manufacturing revenue, which was included as part of the BHI disposal, of £12.2 million (2005 £12.2 million).

Boots The Chemists

BTC comprises three principal components: the health business (which includes the prescription dispensing and consumer healthcare medicines categories), the beauty and toiletries business (which comprises the toiletries, cosmetics and fragrance categories), and the lifestyle business (which includes, amongst other things, the photo, baby and nutrition categories).

In the year ended 31 March 2006, BTC's revenue was £4,732.0 million (which represented approximately 86% of the Boots Group's revenue including discontinued businesses for the same period) and its Trading Profit was £388.4 million (which represented approximately 92% of the Boots Group's Trading Profit including discontinued businesses for the same period).

There are approximately 1,500 BTC stores in aggregate throughout the UK and the Republic of Ireland. Whilst BTC's stores are principally located on the high street, approximately 120 BTC stores are located in edge-of-town locations where Boots believes its customers increasingly wish to shop. The Boots Group has recently completed an investment programme to renew pharmacies and to erect beauty halls in some of its larger stores where previously there was no such facility and, as discussed below in this Part III, has commenced a programme of investment in respect of, amongst other things, 700 of its smaller stores (including 100 BOL practices). BTC also intends to increase its selling space in the current financial year by opening more stores, with a focus on healthcentres.

Approximately 35% of BTC's total revenue in the year ended 31 March 2006 was derived from the sale of own label and other own brands such as "Nº 7" and "Soltan". "Nº 7" and "Soltan" were the largest brands by revenue in their respective markets in 2005.

The Advantage Card scheme, the Boots Group's loyalty card, has approximately 15 million active members and is linked with approximately 70% of BTC's revenue. In the year ended 31 March 2006, two million new members joined the Advantage Card scheme and the number of transactions linked to the Advantage Card increased by 8%. BTC believes that the Advantage Card provides important information for understanding and segmenting its customer base.

BTC's Health Business

BTC's health business consists of the dispensing and consumer healthcare categories.

In the year ended 31 March 2006, the health business accounted for approximately 40% of BTC's total revenue.

BTC's prescription dispensing revenue accounted for approximately 26% of BTC's total revenue for the year ended 31 March 2006. Approximately 1,300 of BTC's stores in the UK have an agreement with the appropriate authority which entitles them to dispense National Health Service ("NHS") prescriptions and to claim reimbursement for doing so.

Boots believes that growth in its prescription dispensing market is being driven by:

- longer life expectancy;
- innovation in healthcare treatment which has introduced, and BTC believes will continue to introduce, significant advances in medicines and pharmaceutical treatments; and
- increased consumer health awareness.

BTC has, in recent years, made significant investments in its dispensing category including by opening new pharmacies (particularly in edge-of-town locations) and by growing its prescription collection service (which involves collecting customers' prescriptions from doctors and accounted for approximately 30% of all items dispensed in BTC's stores in the year ended 31 March 2006) and its care home prescription business.

Boots believes that the advice and service provided by its people are an important element of its health business (as well as in its beauty business). Following the changes to the pharmacy contract in the UK, BTC is increasingly seeking to ensure its pharmacists are more actively involved in preventative healthcare such as weight loss and smoking cessation programmes.

BTC faces competition in the prescription dispensing market from a large number of competitors, including national, regional and local pharmacy chains, the major supermarket retailers, and single owner-manager pharmacies.

It is expected that following Completion, the Enlarged Group will be the largest participant by revenue in the UK dispensing market.

BTC's consumer healthcare category, which is the largest participant by revenue in the UK consumer healthcare market, sells, amongst other things, a broad range of over-the-counter ("OTC") medicines, such as analgesics, cough and cold remedies, skincare and allergy treatments, including "P" medicines, which can be sold without a prescription under the supervision of a pharmacist, and "GSL" medicines, which are sold without restriction in a variety of retail outlets including supermarkets and convenience stores. BTC's consumer healthcare category also sells other health related products such as vitamins and minerals and nutritional supplements. The consumer healthcare market in the UK is highly competitive and, in the 2005 calendar year, was subject to price deflation as a result of price competition particularly from supermarket retailers.

BTC's Beauty and Toiletries Business

BTC's beauty and toiletries business consists of two principal categories: cosmetics and fragrances, and toiletries.

For the year ended 31 March 2006, the beauty and toiletries business accounted for approximately 45% of BTC's total revenue.

BTC's cosmetics and fragrances category sells cosmetic, fragrance and skincare products, and Boots own label products are an important part of this business. Boots believes that growth in the cosmetics and fragrances market is being driven by (amongst other things) increased consumer willingness to spend money on personal care and also product innovation. Boots has sought to grow market share in this market by (amongst other things) opening new stores, erecting new beauty halls in some of its larger stores and improving its customer service. BTC's principal competitors in the beauty market are department stores.

BTC's toiletries category sells, amongst other things, washing and bathing, sun preparation, skincare and deodorant products, including "Boots" own label and other own brand products, such as the "Basics", "Soltan" and "Mediterranean" ranges, as well as proprietary products. The toiletries market in the UK is highly competitive.

BTC's Lifestyle Business

The principal components of BTC's lifestyle business are:

- the baby category, which sells a range of baby products including pre-prepared foods, baby formula, accessories, baby clothing and some baby toys;

- the photo category, which comprises the sale and development of celluloid film and, increasingly, digital processing and the sale of cameras and other photography products; and

- the nutrition category, which is focused on selling lunchtime foods (such as sandwiches, soft drinks and snacks) and which also sells a range of health food products and Boots' own label products including the "Shapers" range.

The lifestyle business accounted for approximately 15% of BTC's revenue in the year to 31 March 2006.

Although the lifestyle business represents a relatively small proportion of BTC's total revenue, BTC believes that it provides an important incentive for customers to visit BTC's stores and to thereby make health and beauty purchases.

Boots.com

Boots.com is an on-line retailer which forms part of BTC whose revenues are included in the health, beauty and toiletries and lifestyle businesses within BTC, and offers healthcare and beauty products together with an on-line dispensing service. In the year ended 31 March 2006, boots.com increased its revenue by 38.6% year on year to £24.5 million.

Supply and Shared Services

The Boots Group's supply and shared services function employs approximately 5,000 people in aggregate (including employees of third party logistics suppliers) and covers, amongst other things, distribution and some procurement functions. The distribution function utilises 5 major warehouses and 17 distribution centres (which are operated by the Boots Group and certain third party logistics suppliers).

On 14 March 2006, the Boots Group announced a major investment programme in respect of 700 of its smaller stores typically serving local communities and local high streets (including 100 BOL practices), its supply chain and its information technology systems. This investment of, in aggregate, approximately £250 million will be funded from the proceeds of the disposal of BHI. Of this, it is intended that £70 million will be invested in the 700 smaller stores (including 100 BOL practices) to modernise pharmacy facilities, install consulting rooms, improve the shopping environment as well as to complete outstanding repairs and maintenance. It is intended that the investment in the supply chain, which is currently expected to be completed in 3 years and to give rise to material cost savings from 2011 onwards, will include the replacement of 17 existing regional warehouses with cross docking facilities, and the establishment of a centralised, automated order-picking warehouse in Nottingham. This investment in the supply chain is expected to result in the loss of approximately 2,250 jobs in the Boots Group.

The Boots Group supply and shared services function also includes the provision of information technology services. A review of information technology provision identified further opportunities to restructure contractual arrangements in this area. The costs associated with this restructuring have been provided for in Boots' consolidated financial statements for the year ended 31 March 2006.

Boots Opticians

BOL, which is being integrated into the BTC business, has approximately 280 practices in the UK, approximately half of which are standalone BOL practices and the other half are located within BTC stores.

In the year ended 31 March 2006, BOL's revenue was approximately £174.3 million and its Trading Loss was £3.5 million. The optical market in which BOL operates is and, Boots believes, will continue to be, highly competitive.

Boots Retail International

In the year ended 31 March 2006, BRI's revenue was £57.9 million including intersegmental revenue, and its Trading Loss was £1.8 million. BRI has sought to build a presence in overseas markets but, at this stage, does not have a significant market share in any of the countries in which it operates. As discussed in Part V ("Operating and Financial Review Relating to the Boots Group") of this document, BRI's losses have materially reduced over the past five years.

BRI has two components:

- "Boots" branded standalone stores. BRI currently operates approximately 95 "Boots" branded standalone stores in Thailand with further stores operated in the Middle East by a local franchised partner; and
- in-store implants and exports sales. The implants involve a third party or the Boots Group operating a small (approximately 20 to 30 square metres) "Boots" branded retail space within a larger third party retail store. There are approximately 750 such implants in 14 countries. In addition, BRI also exports "Boots" own label and other branded products to third party retailers.

The products sold by BRI are taken from BTC's most successful products and brands, such as "Nº 7", "Soltan" and "Botanics".

Manufacturing

The Boots Group has significantly reduced its manufacturing operations over the past decade. In 2004, Boots closed its manufacturing facility in Airdrie, Scotland and transferred production to other Boots Group factories and, in connection with the disposal of BHI, sold its Nottingham based Strepsils, tablets and steriles manufacturing operations and leased the factories to Reckitt Benckiser. The Boots Group now operates three factories, being its liquids and creams factory located in Nottingham and two skincare and cosmetics factories located in France and Germany. At these factories, the Boots Group employs, in aggregate, approximately 2,000 people and manufactures (amongst other things) some of its "Boots" own label and other UK market leading brands by revenue such as "Soltan" and "Nº 7" products for BTC and BRI. It also manufactures products for third-party proprietary brand owners.

While the Boots Group does not incur any research and development expenditure which it believes is material in the context of the overall Boots Group, it continues to invest in, and place importance on, the introduction of new products and processes, as well as new technologies to increase revenues and improve overall operational effectiveness.

Property

The Boots Group has freehold, leasehold and other interests in sites in the UK and Europe. Its properties consist primarily of retail outlets, together with a head office and factories, warehouses and distribution centres.

The Boots Group owns the freehold title to approximately 6% of its stores.

At 31 March 2006, the net book value of the Boots Group's freehold and long leasehold property interests was £465.6 million. In July 2005, the Boots Group completed the sale and leaseback of 312 small retail stores raising in aggregate £298.0 million, which was used by the Boots Group to repay short term borrowings.

For further information on the Boots Group's leased properties see note 28 to Boots' audited consolidated financial statements contained in Part VII ("Financial Information Relating to the Boots Group") of this document.

The following is the principal establishment occupied by the Boots Group:

Location	Tenure	Principal use	Approximate area
1 Thane Road West, Nottingham NG2 3AA	Freehold	Head Office, factories and warehouses	300 acres

A significant proportion of the Boots Group's manufacturing and distribution facilities are located at this property.

As at 31 March 2006, there were no major encumbrances (save for the leases to the manufacturing facilities referred to above) on the principal establishment referred to immediately above.

5. Regulation

In the UK, pharmacies require a licence to be reimbursed for state funded prescriptions. Notwithstanding some partial deregulation in England and Wales, it remains difficult to obtain a new licence unless strict criteria are met.

The UK regulatory authorities are increasingly seeking to utilise and specifically reimburse pharmacists to carry out a range of healthcare services and to provide advice to their patients, in addition to their primary role of dispensing prescription medicines. In particular, concurrently with the partial de-regulation referred to above, changes were introduced to the contractual framework for pharmacies in various parts of the UK under which pharmacists offer patients some of the services traditionally provided by medical practitioners, such as medicine use reviews and support for self care.

6. Acquisitions and Disposals

The Boots Group has not made any significant acquisitions in the three financial years preceding the date of this document.

The principal disposals effected by the Boots Group in the three financial years preceding the date of this document are as follows:

- the Boots Group disposed of its laser eye correction (LASIK) and dentistry businesses to Optical Express Ltd on 10 November 2004 and 20 January 2005 respectively;
- the Boots Group disposed of its 50% interest in handbag.com limited, a joint venture, to Press Holdings on 17 March 2005;
- the Boots Group completed a £298 million sale and leaseback deal with REIT Asset Management in respect of 312 high street shops on 29 July 2005;
- the Boots Group disposed of BHI, its international consumer healthcare business to Reckitt Benckiser for an aggregate cash consideration on a debt and cash free basis of approximately £1.93 billion on 31 January 2006; and
- the Boots Group disposed of Portland Ceramics Ltd during the year ended 31 March 2006.

The principal current and future investment of the Boots Group is the proposed merger with Alliance UniChem pursuant to the terms of the Merger described in Part II ("Information on the Merger") of this document. Save for the disclosures made in paragraph 4 of this Part III and paragraph 6 of Part A of Part VI ("Capital Resources") of this document, Boots has not made any firm commitment to effect any other significant investment.

7. Current Trends in Trading and Prospects

In the year to 31 March 2006, revenue from continuing operations of the Boots Group increased by 1.9%. Over the same period BTC revenue increased by 1.7% in total and on a like-for-like basis increased by 0.6%, excluding the deflationary impact of the Pharmaceutical Price Regulation Scheme (PPRS) price reductions and the timing of Easter, in a weak consumer environment. The UK retail market is not expected to strengthen significantly in the near future although Boots will continue, through the series of initiatives outlined in Boots' announcement of its preliminary results for the year ended 31 March 2006, to drive performance. These initiatives include a continued focus on healthcare, continued development and promotion of own label products, the modernisation of stores and addition of new retail space, and the delivery of cost savings by driving efficiency.

Since 1 April 2006, trading in the Boots Group remains in line with the Boots Board's current expectations for the year ending 31 March 2007.

8. Selected Financial Information

Boots was required for the first time to prepare consolidated financial statements under IFRS for the year ended 31 March 2006.

For the years ended 31 March 2005 and 31 March 2004, Boots prepared consolidated financial statements under the historical cost convention in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP).

The extracts from the audited consolidated financial statements for the three years ended 31 March 2006 have therefore been divided into two sections.

The first section presents the consolidated financial statements for the two years ended 31 March 2006 prepared in accordance with IFRS.

The second section presents the consolidated financial statements for the two years ended 31 March 2005 prepared in accordance with UK GAAP.

The selected financial information set out below has been extracted without material adjustment from Boots' audited consolidated financial statements for the years ended 31 March 2006, 2005 and 2004.

The audited financial statements for the years ended 31 March 2005 and 31 March 2004 are incorporated by reference into this document and the audited consolidated financial statements for the year ended 31 March 2006 are included in Part VII ("Historical Financial Information Relating to the Boots Group") of this document.

A. Boots Group Financial Statements under IFRS

Boots Group income statement for the years ended 31 March 2006 and 31 March 2005

	2006 £million	2005 £million
Continuing operations		
Revenue	**5,027.4**	4,935.5
Cost of sales	**(2,782.8)**	(2,809.2)
Gross profit	**2,244.6**	2,126.3
Selling, distribution and 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)
Group operating profit before finance costs	**369.2**	400.9
Financial income	**186.8**	153.3
Financial expenses	**(207.1)**	(194.2)
Net finance costs	**(20.3)**	(40.9)
Profit before taxation	**348.9**	360.0
Income tax expense	**(44.5)**	(105.0)
Profit after taxation from continuing operations	**304.4**	255.0
Discontinued operations		
Profit from discontinued operations	**1,469.3**	11.4
Profit for the year	**1,773.7**	266.4
Attributable to:		
Equity holders of the parent	**1,773.7**	265.9
Minority interest	**—**	0.5
	1,773.7	266.4
Basic earnings per share — total	**259.2p**	35.9p
Basic earnings per share — continuing	**44.5p**	34.4p
Diluted earnings per share — total	**258.9p**	35.9p
Diluted earnings per share — continuing	**44.4p**	34.4p

The principal disposal in the year was the disposal of the BHI business to Reckitt Benkiser on 31 January 2006. Portland Ceramics Limited was also disposed of in the year ended 31 March 2006. In 2005, the laser eye correction (LASIK), dentistry, chiropody, laser hair removal and handbag joint venture business were also treated as discontinued.

Boots Group balance sheet as at 31 March 2006 and 31 March 2005

	2006 £million	2005 £million
Assets		
Non-current assets		
Goodwill	**—**	0.4
Other intangible assets	**146.8**	441.8
Property, plant and equipment	**1,267.9**	1,452.4
Other receivables	**34.4**	58.6
Deferred tax assets	**54.7**	65.4
	1,503.8	2,018.6
Current assets		
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
	1,927.3	1,376.9
Total assets	**3,431.1**	3,395.5
Liabilities		
Current liabilities		
Short term borrowings and overdrafts	**(183.1)**	(183.8)
Current tax liabilities	**(56.2)**	(95.1)
Trade and other payables	**(633.1)**	(658.9)
Provisions	**(62.1)**	(11.7)
	(934.5)	(949.5)
Non-current liabilities		
Borrowings	**(574.9)**	(587.1)
Other payables	**(30.0)**	(50.9)
Deferred tax liabilities	**(96.5)**	(136.6)
Non-current tax liabilities	**(0.3)**	(0.6)
Retirement benefit obligations	**(56.2)**	(37.6)
Provisions	**(87.2)**	(12.3)
	(845.1)	(825.1)
Total liabilities	**(1,779.6)**	(1,774.6)
Net assets	**1,651.5**	1,620.9
Equity		
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 earnings	**1,131.2**	1,096.1
Equity shareholders' funds	**1,651.5**	1,619.8
Equity minority interests	**—**	1.1
Total equity	**1,651.5**	1,620.9

Boots Group cash flow statement for the years ended 31 March 2006 and 31 March 2005

	2006 £million	2005 £million
Cash flows from operating activities		
Profit for the year	**1,773.7**	266.4
Less discontinued operations	**(67.2)**	(11.4)
Profit on sale of BHI	**(1,402.1)**	—
Profit for the year (continuing operations)	**304.4**	255.0
Adjustments for:		
Depreciation, amortisation, impairments and share scheme charges	**185.5**	156.1
(Profit)/loss on disposal of property, plant and equipment	**(171.1)**	6.6
Foreign exchange loss	**(0.4)**	(3.9)
Other non-cash movements (including provisions)	**(2.5)**	(2.0)
Finance expense	**20.3**	40.9
Income tax expense	**44.5**	105.0
Operating profit before changes in working capital and provisions	**380.7**	557.7
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
Cash generated from operations	**500.8**	472.3
Income taxes paid	**(68.5)**	(117.0)
Net cash from operating activities (continuing operations)	**432.3**	355.3
Cash flows from investing activities		
Acquisition of subsidiaries	**—**	(5.0)
Acquisition of property, plant and equipment	**(181.1)**	(276.5)
Proceeds from sale of property, plant and equipment	**308.3**	10.1
Interest received	**21.1**	12.4
Net cash used in investing activities (continuing operations)	**148.3**	(259.0)
Cash flows from financing activities		
Proceeds from the issue of share capital	**—**	2.1
Advance 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)
Net cash used in financing activities (continuing operations)	**(1,742.4)**	(275.7)
Net cash inflow from discontinued operations	**38.8**	25.3
Cash flows arising on the sale of businesses	**1,854.5**	(3.3)
Net increase/(decrease) in cash and cash equivalents	**731.5**	(157.4)
Cash and cash equivalents at 1st April	**79.7**	236.6
Effect of exchange rate fluctuations on cash held	**2.1**	0.5
Cash and cash equivalents at 31st March	**813.3**	79.7

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

B. Boots Group Financial Statements under UK GAAP

Boots Group profit and loss account for the years ended 31 March 2005 and 31 March 2004

	2005 £million	Restated[1] 2004 £million
Turnover		
Turnover from continuing operations	**5,441.9**	5,286.4
Discontinued operations	**28.8**	40.0
Turnover: group and share of joint venture	**5,470.7**	5,326.4
Less: share of joint venture's turnover[2]	**(1.6)**	(1.4)
Group turnover	**5,469.1**	5,325.0
Operating profit		
Operating profit from continuing operations	**508.2**	570.1
Discontinued operations	**(6.5)**	(20.0)
Group operating profit	**501.7**	550.1
Share of operating loss of joint venture[2]	**(0.6)**	(1.1)
Total operating profit including share of joint venture	**501.1**	549.0
Profit on disposal of fixed assets	**3.0**	32.5
Provision for loss on closure of operations[3]	**(5.4)**	3.9
Loss on disposal of business[3]	**(51.3)**	—
Profit on ordinary activities before interest and taxation	**447.4**	585.4
Net interest payable and similar items	**(19.8)**	(5.5)
Profit on ordinary activities before taxation	**427.6**	579.9
Tax on profit on ordinary activities	**(124.7)**	(167.7)
Profit on ordinary activities after taxation	**302.9**	412.2
Equity minority interests	**(0.5)**	(0.7)
Profit for the financial year attributable to shareholders	**302.4**	411.5
Dividends paid and proposed	**(216.6)**	(226.3)
Retained profit for the financial year	**85.8**	185.2
Basic earnings per share	**40.9p**	52.8p
Basic earnings per share—before exceptionals	**45.7p**	48.0p
Diluted earnings per share	**40.8p**	52.6p
Diluted earnings per share—before exceptionals	**45.7p**	47.9p

1 Restated on adoption of FRS20 'Share-based payments' and UITF38 'Accounting for ESOP trusts'.
2 Relates to the Handbag joint venture, a discontinued operation.
3 Discontinued operations include laser eye correction (LASIK), dentistry, chiropody, laser hair removal and the Handbag joint venture.

Boots Group balance sheet as at 31 March 2005 and 31 March 2004

	2005 £million	Restated[1] 2004 £million
Fixed assets		
Intangible assets	**283.4**	281.5
Tangible assets	**1,593.1**	1,499.4
Investments	**—**	—
	1,876.5	1,780.9
Current assets		
Stocks	**713.6**	690.8
Debtors falling due within one year	**582.4**	516.0
Debtors falling due after more than one year	**151.0**	165.9
Current asset investments and deposits	**19.4**	239.1
Cash at bank and in hand	**109.4**	110.5
	1,575.8	1,722.3
Creditors: Amounts falling due within one year	**(1,074.1)**	(1,135.3)
Net current assets	**501.7**	587.0
Total assets less current liabilities	**2,378.2**	2,367.9
Creditors: Amounts falling due after more than one year	**(588.7)**	(382.9)
Provisions for liabilities and charges	**(179.0)**	(177.2)
Net assets	**1,610.5**	1,807.8
Capital and reserves		
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
Equity shareholders' funds	**1,609.4**	1,806.6
Equity minority interests	**1.1**	1.2
Total equity	**1,610.5**	1,807.8

1 Restated on adoption of FRS20 'Share-based payments' and UITF38 'Accounting for ESOP trusts'.

Boots Group cash flow statement for the years ended 31 March 2005 and 31 March 2004

	2005 £million	2004 £million
Cash inflow from operating activities	**514.7**	637.8
Returns on investment and servicing of finance		
Interest paid	**(34.3)**	(40.4)
Interest received	**14.5**	17.8
Dividends paid by subsidiaries to minority interests	**(0.6)**	—
	(20.4)	(22.6)
Taxation	**(128.8)**	(166.2)
Capital expenditure and financial investment		
Purchase of fixed assets	**(303.4)**	(194.2)
Disposal of fixed assets	**20.5**	149.6
	(282.9)	(44.6)
Acquisitions and disposals	**(9.0)**	(2.2)
Equity dividends paid	**(225.1)**	(229.1)
Cash (outflow)/inflow before use of liquid resources and financing	**(151.5)**	173.1
Management of liquid resources		
Decrease in short term deposits	**219.7**	53.5
Financing		
Capital element of finance lease rental agreements	**(5.7)**	(5.9)
Increase/(decrease) in other borrowings	**293.3**	(11.0)
Cash inflow/(outflow) from change in borrowings and lease financing	**287.6**	(16.9)
Issue of ordinary share capital (net of expenses)	**2.1**	0.3
Repurchase of shares	**(303.3)**	(264.6)
Disposal of own shares	**7.7**	2.3
	(5.9)	(278.9)
Increase/(decrease) in cash in the year	**62.3**	(52.3)

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

PART IV

INFORMATION ON THE ALLIANCE UNICHEM GROUP

The selected historical financial information and other historical financial information in relation to the Alliance UniChem referred to in this Part IV has, unless otherwise stated, been extracted without material adjustment from the audited historical financial statements of Alliance UniChem for the financial years ended 31 December 2005, 31 December 2004 and 31 December 2003.

Investors should read the whole of this document and should not just rely on the financial information set out in this Part IV.

1. Introduction

The Alliance UniChem Group is a leading European distributor of healthcare and pharmaceutical products and services with two core business areas: pharmaceutical wholesaling and retail pharmacies.

The Alliance UniChem Group operates pharmaceutical wholesaling businesses in eight countries with associate wholesaling interests in a further five countries. In total, including associates, the Alliance UniChem Group distributes to approximately 125,000 pharmacies, hospitals and health centres through a network comprising around 380 depots, its largest operations being in France and the UK.

In addition, the Alliance UniChem Group operates over 1,300 retail pharmacies in five European countries, of which around 120 are operated by associate businesses.

The average monthly number of persons employed by the Alliance UniChem Group, including Directors and part-time staff is approximately 26,000. In addition, the average monthly number of persons employed by the Alliance UniChem Group's associates was approximately 15,000.

2. History

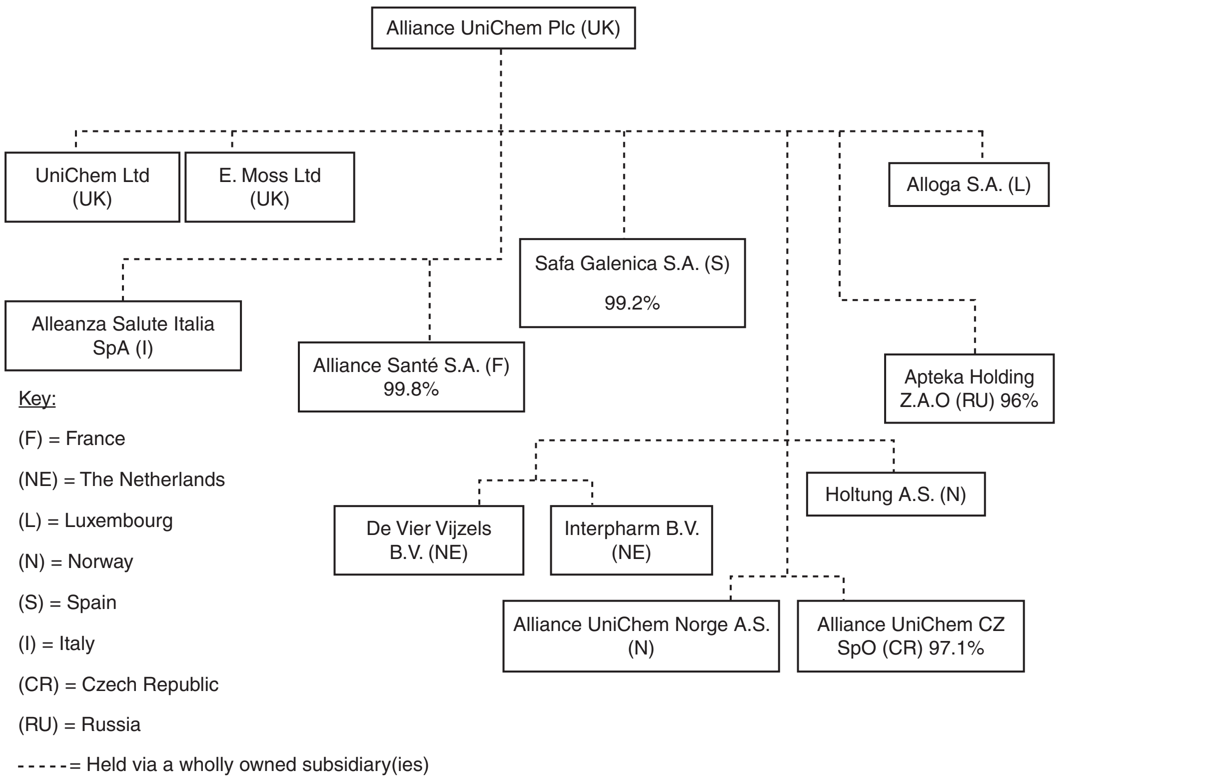
The Alliance UniChem Group was formed in 1997 when UniChem PLC ("UniChem") merged with Alliance Santé S.A. ("Alliance Santé"). This merger was effected by UniChem acquiring Alliance Santé from Alliance Santé Participations S.A., a company indirectly owned by Stefano Pessina, the current Executive Deputy Chairman of Alliance UniChem, in return for the issue of new shares in UniChem PLC. On completion of the merger, UniChem was renamed Alliance UniChem Plc.

The UniChem group was formed by a group of retail pharmacists in London in 1938, its initial business being the wholesaling of pharmaceutical products to independent pharmacists. UniChem subsequently converted to a public limited company and was listed on the London Stock Exchange in 1990. In 1991 UniChem established a significant presence in retail community pharmacy in the UK through the purchase of the Moss Chemists chain which at that time had 92 pharmacies. During the period up until the merger with Alliance Santé, the UniChem group expanded the Moss UK retail chain to over 500 pharmacies alongside its original UK wholesale business and also merged its Portuguese wholesale business with the Portuguese business of Alliance Santé. At the time of the merger with UniChem, Alliance Santé was the second largest pharmaceutical wholesaling group in Europe in terms of turnover with owned businesses in France and Italy, the jointly owned wholesale business in Portugal and equity investments in similar wholesaling businesses in Spain, Greece and Morocco.

Since the merger in 1997, referred to above, the Alliance UniChem Group has expanded rapidly through organic growth and acquisitions. During this period it acquired full control of Alliance Santé's business in Spain, acquired leading pharmaceutical wholesaling businesses in The Netherlands, Czech Republic, Norway and most recently in Russia and acquired a leading European presence in pharmaceutical pre-wholesaling and contract logistics. In addition, it acquired a number of smaller regional wholesalers in existing geographical markets, which it has integrated into its existing operations, and it has acquired minority interests in businesses in Turkey, Germany and Switzerland and, through its Turkish interests, in Egypt. Since that merger, the Alliance UniChem Group has also rapidly expanded its retail division, increasing its total number of pharmacies to approximately 1,300. Of these over 960 are located in the UK and over 120 are operated by associates. The Alliance UniChem Group currently operates pharmacies in the UK, The Netherlands, Norway and Italy alongside its pharmaceutical wholesale businesses, and its associate business in Switzerland also has a retail pharmacy chain.

3. Corporate Structure

Alliance UniChem is the parent company of the Alliance UniChem Group. A list of Alliance UniChem's subsidiary undertakings which are considered likely to have a significant effect on the assessment of the assets and liabilities, the financial position and/or profits and losses of the Alliance UniChem Group are set out in paragraph 10 of Part XIII ("Additional Information") of this document.



Note: Alliance UniChem's direct or indirect interest in the issued share capital of each of the above companies is 100% unless otherwise stated.

Following Completion, Alliance UniChem will become a direct subsidiary of Boots.

4. Business Overview

The Alliance UniChem Group operates in a highly decentralised way, its business being grouped into two divisions, wholesale and retail. In addition, it has a number of associates operating similar businesses.

The wholesale division comprises businesses in eight European countries, each locally managed. In some countries local management operate a number of business units, each focused on particular segments of the pharmaceutical wholesaling market. Included within the wholesale division are the Alliance UniChem Group's pre-wholesale and contract logistics operations.

The retail division, which excludes associates, comprises retail pharmacy chains in four European countries, each locally managed. Due to the nature of the Alliance UniChem Group's businesses in Norway, the Netherlands and Italy, the local management teams have recently started to operate both the wholesale and retail businesses on a country basis.

The Alliance UniChem Group's strategy has been to consistently grow shareholder value over an extended period of time by focussing on its key areas of expertise within the healthcare market, namely pharmaceutical wholesaling and retail pharmacies. In countries where regulations permit and it makes economic sense to do so, the Alliance UniChem Group has sought to operate wholesale and retail pharmacy businesses alongside one another. The Alliance UniChem Group seeks to grow its businesses organically through consistently delivering superior customer service, through utilising its expertise in margin management and through obtaining productivity savings and synergies from managing its businesses closely together. In addition to organic growth, the Alliance UniChem Group's strategy has been to grow through the acquisition of businesses and associate interests, both in existing and new geographical markets, applying strict financial criteria for all investments.

Summary of Revenue by Division

The Alliance UniChem Group's total revenue, including share of associates' revenue, in the year ended 31 December 2005 was £11,136.5 million, made up as follows:

Total revenue	**2005 £million**
Wholesale	**8,687.3**
Retail	**1,337.3**
Intra-group	**(853.4)**
Group	**9,171.2**
Share of associates' revenue	**1,965.3**
Total	**11,136.5**

Wholesale division

The Alliance UniChem Group's wholesale division distributes medicines and other healthcare products on a 'just in time' basis (usually at least twice per day), mainly to pharmacies but also to hospitals and health centres.

The Alliance UniChem Group's wholesale business model has been to provide customers, manufacturers and payors with an efficient core wholesale distribution service at competitive prices, supported by related value added services.

The Alliance UniChem Group has increasingly sought to differentiate its wholesale product offering, such as through the launch in the UK in 2003 of Almus, an award-winning, exclusive range of generic drugs. Almus is in the process of being launched in other European countries, starting with France, and the range is shortly to be expanded to include non-prescription medicines.

For the year ended 31 December 2005, the revenue of Alliance UniChem Group's wholesale division totalled £8,687.3 million, made up as follows:

Wholesale division revenue	**2005 £million**
UK	**1,821.9**
The Netherlands	**659.9**
Czech Republic	**212.4**
Norway	**218.9**
Northern European markets	**2,913.1**
France	**3,790.7**
Italy	**921.6**
Spain	**917.7**
Portugal	**191.0**
Southern European markets	**5,821.0**
Intra-segment	**(46.8)**
Total	**8,687.3**

Operating profit in Alliance UniChem Group's wholesale division (which comprises wholesale division profit from operations before items classified as exceptional) in the financial year ended 31 December 2005 totalled £169.6 million, the operating margin being 1.95%. The operating margin in Northern Europe was 3.17% compared to 1.33% in Southern Europe, margins being typically lower in countries in Southern Europe which partially reflects different governmental approaches to regulation. Penetration of generic drugs is typically much higher in Alliance UniChem Group's Northern European markets, those markets also permitting multiple retail pharmacy ownership. In Alliance UniChem Group's Southern European markets multiple retail pharmacy ownership is prohibited, other than for municipal pharmacies in Italy.

Retail division

The Alliance UniChem Group's retail division operates approximately 1,180 retail pharmacies predominantly located in community locations, with a further 120 operated by associates.

The Alliance UniChem Group's retail business model seeks to provide superior patient care through the operation and development of community pharmacies. This model seeks to help manufacturers to optimise the performance of their pharmaceutical products through dispensing disciplines and pharmacist relationships with patients and doctors.

The majority of Alliance UniChem Group's retail revenue comes from prescription income and related services, reflecting the predominantly community locations of its pharmacies, its focus on this part of the business and the relatively small amount of retail selling space it operates.

For the year ended 31 December 2005, the revenue of Alliance UniChem's retail division totalled £1,337.3 million, made up as follows:

Retail division revenue	**2005 £million**
UK	**939.2**
Norway	**254.5**
The Netherlands	**119.9**
Italy	**23.7**
Total	**1,337.3**

Operating profit in Alliance UniChem Group's retail division (which comprises retail division profit from operations before items classified as exceptional) in the financial year ended 31 December 2005 totalled £112.9 million, the operating margin being 8.44%.

Corporate costs (which comprises the corporate loss from operations before items classified as exceptional) in the financial year ended 31 December 2005 totalled £21.5 million and relate to the costs of running Alliance UniChem Group's headquarters.

Property

The Alliance UniChem Group has its headquarters in Weybridge, Surrey which houses the group and wholesale division management and a number of centralised functions and shared services, including the co-ordination of commercial activities. The Alliance UniChem Group also has a small sourcing office in Ireland. Due to the decentralised nature of its business, the Alliance UniChem Group does not have any principal establishments.

5. Market Environment and Regulatory Framework

The European healthcare markets in which the Alliance UniChem Group operates are forecast to continue to exhibit long term relatively stable and manageable growth. This reflects socio-demographic trends across Europe which show an ageing population and rising quality of life expectations in old age.

These trends are placing increasing financial and operational demands on healthcare systems, resulting in continuing growth in prescription medicine volumes. Prescription medicines across Europe are primarily paid for by national governments, either directly to the retail pharmacy or via an intermediate body, patients sometimes having to make a co-payment, depending in some instances upon either their income or the product being prescribed. In recent years European governments have sought to curtail the growth in their expenditure on prescription medicines by using a variety of tools such as:

- cutting the reimbursement price of branded ethical drugs;
- promoting the substitution of branded ethical drugs with their lower priced generic equivalent (typically reimbursing at the generic price and giving the dispensing pharmacist the right of substitution);
- delisting from reimbursement lists products deemed to have limited medical benefits;
- introducing more patient co-payments for prescription medicines; and
- requiring manufacturers to be more thorough in demonstrating the medicinal benefits of their products prior to their being listed for reimbursement.

These trends present both significant opportunities and significant challenges for the Alliance UniChem Group.

In the wholesale markets in which it operates, the Alliance UniChem Group's wholesale businesses are typically subject to competition from large scale, regional, national and international pharmaceutical wholesalers (including co-operatives) who stock and sell a wide range of prescription and retail products on a 'just in time' basis, usually with deliveries to customers at least twice per day. Competition also comes from smaller wholesalers, who sell a much more limited range of generic drugs and branded ethical drugs which have typically been parallel imported from other countries and relabelled, typically at discounted prices with delivery on a slower, less frequent basis, and from manufacturers who supply products direct to pharmacies or patients, sometimes using pre-wholesalers or contract logistics suppliers.

Governments in many European countries, most notably in the UK, are increasingly seeking to utilise and specifically reimburse pharmacists to carry out a range of healthcare services and provide advice to their patient customers, in addition to their primary role dispensing prescription medicines. These services, for example, include medicine use reviews, the promotion of healthy lifestyles, support for self-care and people with disabilities and methadone programmes.

Retail pharmacies typically require a licence either to operate or to be reimbursed for prescriptions dispensed and other services. In some countries, such as the UK, it can be extremely difficult to obtain a new licence unless certain strict criteria are met.

In the retail pharmacy markets in which it operates, Alliance UniChem Group's pharmacies can be subject to competition from other chains of community and high street pharmacies, independently owned pharmacies, pharmacies within health centres or supermarkets and dispensing doctors. Typically competition is from pharmacies within a relatively defined geographic area. Internet pharmacies are still at an embryonic stage in Europe.

In a number of European countries, particularly in Southern Europe, pharmacy ownership is restricted to one pharmacy per pharmacist. Alliance UniChem has stated that multiple ownership of pharmacies will in due course be permitted in these countries, although the certainty and timing of this cannot be predicted.

6. Acquisitions and Disposals

During the three years ended 31 December 2005, the Alliance UniChem Group invested a cumulative total of £396.4 million in acquiring businesses and associate interests including assumed net debt of £17.6 million.

Of this, the Alliance UniChem Group has invested £258.2 million in aggregate (including assumed net debt of £3.1 million) in acquiring 224 retail pharmacies primarily in the UK, Norway and the Netherlands. These acquisitions range in size from single pharmacies to medium sized chains, the largest being Bairds Chemists, the market leader in Northern Ireland with 50 pharmacies which was acquired in 2005 at a cost of £81.2 million.

The Alliance UniChem Group has invested £71.2 million in aggregate on the acquisition of businesses for Alliance UniChem 's Group's wholesale division, the largest being the acquisition in 2005 of Farmacêutica Central, S.A. ("Farmacen"), the sixth largest wholesaler in Spain, at a cost of £32.2 million including debt assumed. Also in 2005, the Alliance UniChem Group acquired Centro Europeo de Reparto Farmacêutica de Cataluna, S.A. ("CERFC") in Spain for £12.4 million.

The Alliance UniChem Group has invested £67.0 million in aggregate on the acquisition of associate interests in businesses. This has included £41.7 million on increasing Alliance UniChem's shareholding in Andreae-Noris Zahn AG ("Anzag"), the third largest wholesaler in Germany, by 19% to 29.99%.

During the three years ended 31 December 2005, the Alliance UniChem Group disposed, in full or in part, of a number of businesses and business interests which were not core activities. The consideration for these disposals was, in aggregate, £158.2 million and included the sale in 2005 of 51% of Alliance UniChem Group's wholesale business in Portugal (49% to the Associação Nacional das Farmácias, Portugal's national association of pharmacies and 2% to an investment company).

In addition to the above transactions, during 2005 the Alliance UniChem Group restructured its relationship with Galenica ("Galenica"), whereby it increased its direct ownership in Alloga S.A. from 20% to 100%, with the exception of the Swiss part of the business, and sold its 50% direct interest in Galenicare S.A. to Galenica. The consideration for those transactions was settled on a net basis, and resulted in a net cash inflow of £15.7 million including net debt acquired and associate loans repaid.

Since the beginning of 2006, the Alliance UniChem Group has continued to expand through acquiring retail pharmacies and on 22 March 2006 acquiring a 96% controlling stake in the parent company of Apteka Holding Z.A.O., the fifth largest pharmaceutical wholesaler in Russia for approximately £28 million including assumed debt.

7. Current Trends in Trading and Prospects

At Alliance UniChem's Annual General Meeting of shareholders held in Weybridge on 25 April 2006, Paolo Scaroni, Chairman of Alliance UniChem, made the following statement to shareholders:

"In the first quarter of the year the Group delivered another strong financial performance, in line with our overall expectations at the time of the 2005 preliminary results announcement on 28 February 2006.

The Group's wholesale division has performed well in the first quarter. Overall growth in our wholesale markets during this period was broadly in line with our expectations taking into account the anticipated effect of regulatory reviews, particularly in France, where governments continually strive to maintain costs at manageable levels. Initiatives taken by us in the year to date include the launch at the beginning of April in France of Almus, our exclusive range of generic drugs.

Our retail division has again continued to perform strongly during the period. Growth in our retail network has continued with a net 17 pharmacies added during the quarter including six in associates. In England and Wales the number of Medicines Use Reviews conducted by our accredited pharmacists continues to grow.

Overall performance from our associate businesses continues to be strong.

The Group continues to seek opportunities to expand, both in countries where we operate and beyond. Since the beginning of the year we have entered the Russian pharmaceutical wholesale market through the acquisition of Apteka Holding Z.A.O., the fifth largest pharmaceutical wholesaler in the country. In addition, in April Hedef Alliance, our Turkish associate, exercised its option to acquire control and majority ownership of its associate, UCP, a leading pharmaceutical wholesaler in Egypt."

8. Selected Financial Information

For the year ended 31 December 2005, Alliance UniChem was required for the first time to prepare consolidated financial statements under IFRS.

For the years ended 31 December 2003 and 31 December 2004, Alliance UniChem prepared consolidated financial statements under the historical cost convention in accordance with United Kingdom generally accepted accounting principles (UK GAAP).

The extracts from the audited financial statements for the three years ended 31 December 2005 have therefore been divided into two sections.

The first section presents the consolidated financial statements for the two years ended 31 December 2005 prepared in accordance with IFRS.

The second section presents the consolidated financial statements for the two years ended 31 December 2004 prepared in accordance with UK GAAP.

Note 50 to the audited consolidated financial statements of Alliance UniChem for the year ended 31 December 2005 provides a reconciliation from UK GAAP to IFRS.

The information set out below has been extracted without material adjustment from the audited consolidated financial statements of Alliance UniChem for the three years ended 31 December 2005, on which its auditors (Deloitte & Touche LLP) issued unqualified audit reports copies of which are included in Part VIII ("Historical Financial Information Relating to the Alliance UniChem Group") of this document.

A. Alliance UniChem Group Financial Statements under IFRS

Alliance UniChem Group income statement for the years ended 31 December 2005 and 31 December 2004

	2005 £million	2004 £million
Revenue including share of associates' revenue	**11,136.5**	10,605.9
Less: share of associates' revenue	**(1,965.3)**	(1,707.5)
Revenue	**9,171.2**	8,898.4
Operating profit including share of associates' operating profit	**331.8**	289.7
Less: share of associates' operating profit	**(70.8)**	(46.1)
Operating profit[1]	**261.0**	243.6
Costs in relation to proposed merger	**(3.8)**	—
Share of associates' post-tax earnings	**45.3**	34.0
Profit on disposal of businesses	**7.8**	19.2
Profit on disposal of/(amounts written off) investments	**2.1**	(1.9)
Profit from operations	**312.4**	294.9
Finance income	**13.2**	8.0
Finance costs	**(46.7)**	(49.9)
Profit before tax	**278.9**	253.0
Tax	**(67.6)**	(65.3)
Profit for year	**211.3**	187.7
Attributable to:		
Equity shareholders	**210.7**	187.3
Minority interests	**0.6**	0.4
	211.3	187.7
Earnings per share		
Basic	**58.9p**	53.4p
Diluted	**58.3p**	52.8p
Adjusted basic[2]	**55.2p**	48.5p
Adjusted diluted[2]	**54.6p**	47.9p

1 Operating profit comprises profit from operations before share of associates' post-tax earnings and exceptional items.

2 Figures exclude items considered to be exceptional by Alliance UniChem (in the reporting periods this comprises of costs in relation to the proposed Merger, profit on disposal of businesses and profit on disposal of/(amounts written off) investments and IAS 39 timing differences from hedging interest rate and currency exposures).

Segmental analysis

		Revenue		Profit from operations	
		2005 £million	2004 £million	2005 £million	2004 £million
Wholesale	— before profit on disposal of businesses	**8,687.3**	8,536.8	**169.6**	166.5
	— profit on disposal of businesses	**—**	—	**2.9**	19.2
Wholesale		**8,687.3**	8,536.8	**172.5**	185.7
Retail	— before profit on disposal of businesses	**1,337.3**	1,222.6	**112.9**	95.3
	— profit on disposal of businesses	**—**	—	**0.4**	—
Retail		**1,337.3**	1,222.6	**113.3**	95.3
Corporate	— before costs in relation to proposed merger	**—**	—	**(21.5)**	(18.2)
	— costs in relation to proposed merger	**—**	—	**(3.8)**	—
Corporate		**—**	—	**(25.3)**	(18.2)
Intra-group		**(853.4)**	(861.0)	**—**	—
Share of associates' post tax earnings		**—**	—	**45.3**	34.0
Profit on disposal of associate businesses		**—**	—	**4.5**	—
Profit on disposal of/(amount written off) investments		**—**	—	**2.1**	(1.9)
		9,171.2	8,898.4	**312.4**	294.9

Alliance UniChem Group balance sheet as at 31 December 2005 and 31 December 2004

	2005 £million	2004 £million
Assets		
Non-current assets		
Goodwill	**232.1**	175.6
Intangible assets	**819.3**	715.4
Property, plant and equipment	**350.0**	306.0
Investments in associates	**394.5**	332.4
Loans to associates	**—**	42.5
Other investments	**—**	42.6
Available-for-sale investments	**48.4**	—
Deferred tax assets	**9.2**	7.8
Trade and other receivables	**27.2**	40.2
Derivative financial instruments	**3.5**	—
	1,884.2	1,662.5
Current assets		
Inventories	**670.5**	692.2
Securitised receivables	**—**	456.1
Non-recourse receipts	**—**	(400.8)
Net securitised receivables	**—**	55.3
Trade and other receivables	**1,424.7**	1,027.1
Cash and cash equivalents	**133.5**	101.9
Derivative financial instruments	**0.6**	—
	2,229.3	1,876.5
Non-current assets classified as held for sale	—	1.7
Total assets	**4,113.5**	3,540.7
Liabilities		
Current liabilities		
Financial liabilities		
— borrowings	**(216.4)**	(175.7)
— financing linked to securitisation	**(289.4)**	—
Derivative financial instruments	**(12.2)**	—
Trade and other payables	**(1,383.5)**	(1,383.3)
Current corporate tax liabilities	**(42.6)**	(37.5)
	(1,944.1)	(1,596.5)
Net current assets	**285.2**	280.0
Non-current liabilities		
Financial liabilities		
— borrowings	**(605.2)**	(732.0)
— financing linked to securitisation	**(103.3)**	—
Derivative financial instruments	**(83.4)**	—
Deferred tax liabilities	**(123.6)**	(108.4)
Retirement benefit obligations	**(69.1)**	(53.0)
	(984.6)	(893.4)
Net assets	**1,184.8**	1,050.8
Equity		
Share capital	**36.2**	35.8
Share premium	**509.4**	485.7
Employee share trusts	**(45.1)**	(13.1)
Retained earnings	**648.1**	520.8
Translation reserve	**2.7**	8.5
Hedging reserve	**13.8**	—
Available-for-sale revaluation reserve	**10.3**	—
Other reserves	**(1.6)**	2.7
Shareholders' equity	**1,173.8**	1,040.4
Minority interests	**11.0**	10.4
Total equity	**1,184.8**	1,050.8

Alliance UniChem Group cash flow statement for the years ended 31 December 2005 and 31 December 2004

	2005 £million	2004 £million
Cash generated by operations	**275.1**	311.1
Tax paid	**(59.2)**	(49.0)
Interest paid	**(45.2)**	(52.9)
Net cash from operating activities	**170.7**	209.2
Net cash used in investing activities	**(45.1)**	(149.2)
Net cash (used in)/from financing activities	**(162.2)**	0.9
Net (decrease)/increase in cash and cash equivalents in the year	**(36.6)**	60.9
Cash and cash equivalents at 1 January	**19.8**	(38.8)
Currency translation differences	**6.0**	(2.3)
Cash and cash equivalents at 31 December	**(10.8)**	19.8

Set out below is a reconciliation of the net (decrease)/increase in cash and cash equivalents to the decrease in net borrowings. Net borrowings are defined by Alliance UniChem as borrowings net of cash and cash equivalents and derivative financial instruments.

	2005 £million	2004 £million
(Decrease)/increase in cash and cash equivalents	**(36.6)**	60.9
Cash and cash equivalents outflow/(inflow) from decrease/(increase) in debt and lease financing	**87.0**	(20.6)
Decrease in net borrowings resulting from cash flows	**50.4**	40.3
Borrowings acquired with businesses	**(38.8)**	—
Finance leases entered into	**—**	(9.1)
Loan notes issued for non-cash consideration	**—**	(0.7)
	11.6	30.5
Currency translation differences and fair value adjustments on financial instruments	**36.9**	(9.9)
Decrease in net borrowings in the year	**48.5**	20.6
Net borrowings at 1 January	**(805.8)**	(826.4)
IAS 39 adjustment at 1 January 2005	**(22.3)**	—
Net borrowings at 31 December	**(779.6)**	(805.8)

B. Alliance UniChem Group Financial Statements under UK GAAP

Alliance UniChem Group profit and loss account for the years ended 31 December 2004 and 31 December 2003

	2004 £million	2003 £million
Turnover: Group and share of associated undertakings – continuing activities	**10,605.9**	9,820.2
Less: share of associated undertakings	**(1,707.5)**	(1,020.9)
Turnover – continuing operations	**8,898.4**	8,799.3
Group operating profit – continuing operations	**234.9**	217.7
Share of operating profit in associated undertakings	**41.0**	32.1
Total operating profit	**275.9**	249.8
Net exceptional items	**11.7**	—
Net interest payable and similar charges	**(39.4)**	(53.5)
Profit on ordinary activities before taxation	**248.2**	196.3
Tax on profit on ordinary activities	**(81.0)**	(67.2)
Profit on ordinary activities after taxation	**167.2**	129.1
Equity minority interests	**(0.1)**	(0.6)
Profit for the financial year	**167.1**	128.5
Earnings per share		
Basic	**47.7p**	37.6p
Diluted	**47.1p**	37.3p
Basic, before amortisation of intangible assets and exceptional items	**48.7p**	41.6p
Diluted, before amortisation of intangible assets and exceptional items	**48.2p**	41.2p

Segmental analysis

	Turnover 2004 £million	Total operating profit before amortisation of intangible assets 2004 £million	Total operating profit after amortisation of intangible assets 2004 £million	Turnover 2003 £million	Total operating profit before amortisation of intangible assets 2003 £million	Total operating profit after amortisation of intangible assets 2003 £million
Wholesale Northern Europe	**2,897.6**	**90.2**	**83.8**	2,899.8	84.3	79.3
Wholesale Southern Europe	**5,684.6**	**77.0**	**73.5**	5,618.9	74.4	70.9
Retail – Europe	**1,222.6**	**96.1**	**95.6**	1,107.4	79.3	78.9
Corporate	**—**	**(18.0)**	**(18.0)**	—	(11.4)	(11.4)
Intra-group	**(906.4)**	**—**	**—**	(826.8)	—	—
Group	**8.898.4**	**245.3**	**234.9**	8,799.3	226.6	217.7
Share of operating profit in associated undertakings	**—**	**46.1**	**41.0**	—	36.8	32.1
Total	**8,898.4**	**291.4**	**275.9**	8,799.3	263.4	249.8

Alliance UniChem Group balance sheet as at 31 December 2004 and 31 December 2003

	2004 £million	2003 £million
Fixed assets		
Intangible assets	**848.7**	784.7
Tangible assets	**334.4**	304.9
Investments	**412.4**	347.9
	1,595.5	1,437.5
Current assets		
Stocks	**692.2**	728.8
Securitised receivables	**456.1**	448.8
Non-recourse receipts	**(400.8)**	(399.5)
Net securitised receivables	**55.3**	49.3
Other debtors	**1,073.6**	1,128.6
Cash at bank and in hand	**100.9**	117.2
	1,922.0	2,023.9
Creditors: amounts falling due within one year		
Borrowings	**(175.8)**	(257.5)
Other creditors	**(1,462.5)**	(1,523.8)
	(1,638.3)	(1,781.3)
Net current assets	**283.7**	242.6
Total assets less current liabilities	**1,879.2**	1,680.1
Creditors: amounts falling due after more than one year		
Borrowings	**(736.1)**	(686.9)
Provisions for liabilities and charges	**(25.3)**	(18.6)
Net assets excluding net pension liabilities	**1,117.8**	974.6
Net pension liabilities	**(36.3)**	(34.3)
Net assets including net pension liabilities	**1,081.5**	940.3
Capital and reserves		
Called up share capital	**35.8**	35.1
Share premium account	**485.7**	444.2
Shares to be issued	**—**	25.1
Investment in own shares	**(13.1)**	(23.1)
Capital reserve	**2.7**	2.6
Profit and loss account	**560.0**	445.9
Equity shareholders' funds	**1,071.1**	929.8
Minority interests	**10.4**	10.5
Total capital employed	**1,081.5**	940.3

Alliance UniChem Group cash flow statement for the years ended 31 December 2004 and 31 December 2003

	2004 £million	2003 £million
Net cash inflow from operating activities	**310.1**	322.3
Dividends received from associated undertakings	**4.3**	3.3
Returns on investments and servicing of finance	**(44.7)**	(50.7)
Taxation	**(49.0)**	(46.2)
Capital expenditure and financial investment	**(43.8)**	(42.8)
Acquisitions and disposals	**(107.0)**	(46.8)
Equity dividends paid	**(31.7)**	(30.8)
Cash inflow before financing	**38.2**	108.3
Financing		
Issue of ordinary share capital	**1.9**	2.0
Net cash inflow/(outflow) from increase/(decrease) in debt and lease financing	**2.7**	(80.3)
Net cash inflow/(outflow) from financing	**4.6**	(78.3)
Increase in cash in the year	**42.8**	30.0
Reconciliation of net cash flow to movement in net borrowings		
Increase in cash in the year	**42.8**	30.0
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	**(2.7)**	80.3
Decrease in net borrowings resulting from cash flows	**40.1**	110.3
Borrowings acquired with businesses	**—**	(0.3)
Finance leases entered into	**(13.3)**	—
Loan notes issued for non-cash consideration	**(0.7)**	(0.4)
Currency translation differences	**(9.9)**	(56.6)
Decrease in net borrowings for the year	**16.2**	53.0
Net borrowings at 1 January	**(827.2)**	(880.2)
Net borrowings at 31 December	**(811.0)**	(827.2)

PART V

OPERATING AND FINANCIAL REVIEW RELATING TO THE BOOTS GROUP

1. Introduction

The operating and financial review contained in this Part V should be read in conjunction with (i) Boots' audited consolidated financial statements for each of the three years ended 31 March 2006, 2005 and 2004 and (ii) the notes explaining the financial statements for the three years ended 31 March 2006, 2005 and 2004.

Unless otherwise indicated, the selected financial information included in this Part V has been extracted without material adjustment from Boots' audited consolidated financial statements and annual reports for the three years ended 31 March 2006, 2005 and 2004.

Investors should read the whole of this document and the documents incorporated herein by reference and should not rely solely on the summary operating and financial information set out in this Part V.

Certain information on governmental, economic and political factors which could affect the Boots Group's operations are set out in the "Risk Factors" section.

In this Part V:

- comparisons are not made on a "like-for-like" basis unless expressly provided otherwise;
- where "like-for-like" comparisons are made, they exclude the effect of changes to selling space; and
- all comparisons are, unless otherwise provided, to the previous financial year.

2. Overview

This overview should be read in conjunction with the information contained in paragraphs 3, 4 and 5 of this Part V.

During the period discussed in this operating and financial review, the Boots Group has undergone significant change and the Boots Group's financial results reflect this.

As is discussed in Part III ("Information on the Boots Group") of this document, and in this Part V, the Boots Group has, during the period under review, in pursuance of its strategy for BTC to become a modern, competitive and efficient retailer:

- effected significant capital and revenue investment in BTC to address previous periods of under investment; and
- disposed of, and/or exited from, a number of non-core businesses and has refocused its strategy on its core health and beauty retail business.

The capital and revenue investment referred to above has, as is discussed in further detail in paragraphs 3, 4 and 5 of this Part V, included the following over the past three years:

- significant capital investment to open new stores, mainly in edge-of-town locations, which has increased selling space, and to improve pharmacy operations;
- significant capital investment to renew information technology systems including the introduction of new tills in all of BTC's stores;

- investment in, and restructuring of, the supply chain, including more frequent store deliveries to improve stock availability and simplify store operations; and
- costs associated with implementation of the "Getting in Shape" programme which involved (amongst other things) a reduction in the Boots Group's head office headcount.

As discussed in Part III ("Information on the Boots Group") of this document, BTC has, in recent years, faced price competition in some segments of its health and beauty market and in particular in respect of toiletries products and the over-the-counter ("OTC") medicines. In order to (amongst other things) more closely align prices with those of its competitors, BTC initiated the "Lower Prices You'll Love" programme in 2003. Over the past three years, BTC has continued to implement that programme to reduce the prices of a significant number of products sold in BTC's stores (particularly toiletries products and OTC medicines). This reduction of prices has, in the period from 1 April 2003 to 31 March 2006, contributed to a decline in BTC's gross margin[1] of, approximately 1.5 percentage points. However, the reduction of prices has contributed to an increase in BTC's sales volumes of 2.5% in the period from 1 April 2003 to 31 March 2006.

The Boots Group's revenues from continuing operations increased by a compounded average of 2.9% per annum in the period from 1 April 2003 to 31 March 2006. This increase in revenue was achieved despite a downturn in consumer spending in the UK, particularly in the financial year ended 31 March 2006, and the implementation of the "Lower Prices You'll Love" programme (which, as is indicated above, reduced prices applicable to some of BTC's products but contributed to an increase in BTC's sales volumes).

By business segment, in the period from 1 April 2003 to 31 March 2006:

- BTC's revenue increased by a compounded average of 3.3% per annum. Revenue in BTC's dispensing category increased by a compound average of 5.0% per annum over this period despite the effect of the Pharmaceutical Price Regulation Scheme price reductions and the review of pricing applicable to generic products;
- BOL's revenue fell by a compounded average of 6.3% per annum as a result of, amongst other things, intense competition in the optical and eye-wear market and as a result of franchising a number of stores; and
- BRI's revenue increased by a compounded average of 15.9% per annum as a result of, amongst other things, the Boots Group's decision to establish "implant" arrangements in host retailers' stores (these arrangements are briefly described in Part III ("Information on the Boots Group") of this document).

Further details on revenue performance for the Boots Group and its principal business units are given in paragraphs 3, 4 and 5 of this Part V below.

Despite the increase in the Boots Group's revenue as discussed above the Boots Group's operating profit before exceptionals fell by a compounded average of approximately 4.3% per annum in the period from 1 April 2003 to 31 March 2005. For the year ended 31 March 2006, Trading Profit from continuing operations also fell by 17.6%. These reductions were caused by, amongst other things, increased costs associated with the capital and revenue investment referred to above. The other principal causes of increased costs were inflationary increases in oil, gas, electricity, rent and staff costs. However these increases were largely offset by cost savings associated with the various efficiency programmes, such as the "Getting in Shape" cost reduction programme referred to above.

As referred to above, the Boots Group's financial results in the period discussed in this section were also affected by the sale or closure of non-core businesses. These are discussed in further detail below but include the divestment of properties, the closure of the wellbeing services business, the disposal of the laser eye correction and dentistry businesses and the sale of BHI.

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[1] Gross margin is defined as gross profit divided by revenue. Revenue excludes VAT and relevant discounts. Gross profit is revenue less the cost of goods which includes certain associated revenue and expense items.

3. The Financial Year Ended 31 March 2006

Operating Review

As is indicated elsewhere in this document, the Boots Group completed two major transactions in the financial year ended 31 March 2006, being the sale and leaseback of 312 properties which was completed in May 2005 and the disposal of BHI which was completed in January 2006.

The sale and leaseback transaction generated proceeds of £298 million, which were applied to reduce the Boots Group's borrowings, and resulted in a profit before tax of £150 million. Ongoing annualised rental expenses increased by £17.4 million (£11.7 million in the year ended 31 March 2006) as a result of this transaction with a corresponding reduction in finance costs of an approximately equal amount.

As is indicated elsewhere in this document, BHI was sold to Reckitt Benckiser for approximately £1.93 billion, on a debt and cash free basis. Boots applied approximately £1.43 billion of the proceeds from the disposal of BHI to pay the Special Dividend on 24 February 2006, and after anticipated taxation and other costs associated with the BHI transaction of approximately £100 million, the remaining proceeds of approximately £400 million were retained for further investment in the Boots Group and the Enlarged Group and for investment in the Boots Pension Scheme.

During the year, the Boots Group continued to invest in its core infrastructure. In aggregate, the Boots Group incurred cash capital expenditure of £181 million to, amongst other things:

- open (i) 24 new BTC stores, 7 of which are in edge-of-town locations; (ii) 43 new pharmacies mainly in edge-of-town locations; (iii) 339 net new BRI implants, including 173 in four new countries including in Target and CVS stores in the United States; and (iv) 34 new BTC beauty halls and products displays; and

- implement an electronic prescription capability in all UK and Republic of Ireland BTC pharmacies.

BTC's revenue increased by 1.7% to £4,732 million in a year which was very challenging for UK retailers. On a like-for-like basis, revenue increased by 0.6% adjusting for the deflationary impact of the Pharmaceutical Price Regulation Scheme ("PPRS") price reductions and the timing of Easter. Revenues from new space accounted for 1.8% of total revenue. The Advantage Card again demonstrated its importance as linked transactions increased by 8%. During the year, 2 million members joined the scheme. BTC reduced prices by an average of 19% on over 700 products (principally OTC medicines, toiletries and baby products).

Revenue in the health business increased by 2.7% to £1,909 million. In the dispensing category, the number of items dispensed increased by 5.4%, in line with market growth for the first time in many years. This growth was primarily driven by the prescription collection service, where the number of items dispensed increased by a fifth during the year, and the care homes business. Dispensing revenues increased by 2.8% after the impact of price deflation from both the PPRS changes and from the price cuts to generic medicines which anniversaried in September 2005. 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, had a broadly neutral effect on revenue in the year. Revenue in the consumer healthcare category increased by 2.4% with a strong performance in the last quarter driven primarily by the "Change One Thing" campaign which increased revenues in smoking cessation products and vitamins.

Revenue in the beauty and toiletries business increased by 2.4% to £2,105 million. Revenue in the beauty category increased by 7.9%, as a result of, amongst other things, the benefits of the investments made in new beauty halls and the relaunching of major own brands. Cosmetics revenues increased by 8.4%, including a 9.7% increase in premium brands aided by 70 new premium accounts won in the year and a 13% increase in revenues of "Nº 7" and "17" products since their relaunch. Fragrances revenues increased by 6.9% during the year. The toiletries category had its best year (in terms of revenue growth) for three years as revenues increased by 2.2%. There was a strong performance in skincare products as revenues increased by 6.9% in the year, following the refreshing of the offering and the introduction of new illuminated shelving in stores in January 2006. A successful promotional campaign over summer 2005 contributed to an increase in revenues of sun products of 11.9%. Personal care and hair care revenue were constrained by competitive market conditions. In total, volume growth in the toiletries category was in line with the wider market. Overall revenues in the beauty and toiletries business were, however, constrained by the weak performance in electrical products which fell by 12.7% with a sharp decline in revenues from higher value personal care products, in particular hair straighteners.

It was a difficult year for the lifestyle business as revenues fell by 2.5% to £718 million. Revenues in the baby category increased by 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 approximately 600,000 members sign up, representing approximately half of the target group of parents of the 1.2 million children under two years old. Revenue in the food category, which was renamed the "nutrition" category during the year, fell by 2.6% driven by the continued impact of the decline of Atkins diet related products. The photo category continued to gain market share as other operators exited the market and digital revenues increase by 26.8%. However, the overall photo market remains in decline and revenues fell by 8.9%

BTC's gross margin decreased by 20 basis points with better buying and mix improvements offsetting the impact of price reductions, which was in line with plans for a broadly stable margin.

BTC's operating costs increased by 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 offering in store, in opening new stores and in modernising the information technology infrastructure.

BOL's revenue fell by 3.3% as a result of increasing market competition, deregulation, disruption caused by restructuring and lower consumer spending on fashion items. BOL recorded a Trading Loss for the year of £3.5 million down, from a Trading Profit of £2.8 million in the previous year. BOL's revenue in the second half of the year, compared to the corresponding period for the previous year, however, increased by 4.4% as improvements in store management and marketing began to make a positive impact.

BRI continued the strategy introduced four years ago of establishing implants in host retailers' stores. Over 350 implants were opened during the year in 13 countries, including four new countries. These initiatives, amongst other things, contributed to an increase in revenue of 20.1% to £57.9 million (including inter-segmental sales) and to a reduction in Trading Loss to £1.8 million (from £8.1 million) during the year.

Financial Performance

Distributions to shareholders

Over the previous five years, the Boots Group pursued a financial strategy of returning surplus cash to shareholders through share buybacks in order to create a more efficient balance sheet. The first £350 million tranche of a £700 million share buyback programme, announced in 2004, was effected by May 2005. In the first half of the financial year Boots decided to delay the second £350 million tranche of the buy-back programme due to the sale of BHI.

Revenue

The Boots Group's revenue from continuing operations increased by 1.9% to £5,027.4 million. BTC's revenue increased by 1.7% to £4,732.0 million and like-for-like revenue, excluding the impact of the National Health Service's decision to reduce reimbursement rates for branded medicines pursuant to the Pharmaceutical Price Regulation Scheme and calendar effects, increased by 0.6%. The reduction in reimbursement rates for branded medicines had the impact of reducing revenue in BTC, however, substantially all of this reduction in revenue was offset by corresponding decreases in the purchase costs of these goods. As a result, gross profit on branded medicines was largely maintained.

Trading Profit

Boots Group's Trading Profit from continuing operations fell by 17.6% to £335.9 million. The principal reasons for this fall were:

- an increase in operating costs of 6% due to the continued investment in the BTC business discussed above;
- additional rental costs relating to the sale and leaseback of 312 properties referred to above; and
- intense competition in particular in the toiletries and OTC medicines markets.

Inflation in operating costs, such as oil, gas, electricity, rent and staff costs, of approximately 3%, was offset by efficiency improvements in the supply chain and store operations and more efficient sourcing.

Profit before tax

Profit from continuing operations before tax decreased by 3.1% to £348.9 million. This decline was principally a result of the decline in Trading Profit mentioned above (offset by the net effect of a profit of £150 million referred to above on the disposal of properties in the sale and leaseback transaction) and the costs associated with the investment programme (announced on 14 March 2006).

Working capital

The working capital requirement reduced by £31 million in the year ended 31 March 2006 as a result of a reduction in stock holding together with better management of trading terms. This reduction was achieved despite upward pressure on stock holding from the new store openings and the mix of higher value pharmacy and beauty products.

Cash flow

Net cash from operating activities from continuing operations increased to £432.3 million (2005 £355.3 million) principally as a result of reductions in working capital, lower income taxes paid and increases in provisions in respect of the restructuring programme announced on 14 March 2006.

Accounting policies

For the year ended 31 March 2006, Boots presented, for the first time, its consolidated financial statements under IFRS. The adoption of IFRS had a minimal impact on the Boots Group's profit and loss account (income statement under IFRS) for the year ended 31 March 2005 and increased net assets by £10.4 million as at 31 March 2005. An explanation of how the transition from UK GAAP to IFRS has affected the Boots Group's financial position, financial performance and cash flows is set out in Note 34 to the Boots Group's audited financial statements for the year ended 31 March 2006 contained in Part VII ("Historical Financial Information Relating to the Boots Group") of this document.

4. The Financial Year Ended 31 March 2005

Operating Review

During the year, the Boots Group continued to pursue its strategy for BTC of becoming a more modern, efficient and competitive retail business. As is described in further detail below, against a background of worsening retail conditions, the Boots Group continued to make substantial investments in its core BTC business and completed its exit from certain non-core services businesses.

The Boots Group made £303 million of capital expenditure in the year. Approximately £115 million of revenue investments were made in BTC during the year. In particular, BTC continued its store development programme by opening 47 new stores (including 23 in edge-of-town locations), continued to reduce the prices of its products and invest in longer store opening hours. Significant investments were also made in logistics and information technology infrastructure. Boots believed that these investments were necessary to enable BTC to achieve long term sustainable growth.

BTC's turnover grew throughout the first half of the year but turnover in the second half of the year was below initial expectations as a result of, amongst other things, the consumer downturn which affected UK retailers generally. Over the whole year, however, BTC's turnover increased by 3.8% (2.4% on a like-for-like basis). BTC's core health business performed well with overall turnover for the dispensing and consumer healthcare categories increasing by 5.0% to £1,863 million and dispensing turnover increasing by 6.1% principally as a result of growth in the prescription collection service and the conversion of approximately 80 dispensaries. Turnover in the beauty business also increased but the toiletries category, in particular, had a tough year as a result of vigorous competition and price deflation in the toiletries market. During the year, BTC continued to invest in the beauty business (including in new beauty halls, new premium accounts, fragrance display cabinets and the relaunch of "Nº 7") and turnover of cosmetic and fragrances products increased by 5.3%.

During the financial year, BTC continued to implement the "Lower Prices You'll Love" programme to reduce the prices of the products sold in BTC, particularly toiletries products and OTC medicines. This reduction was the principal factor in reducing BTC's gross margin by approximately 0.8 percentage points.

BTC's operating costs increased by £100 million, approximately 7%, during the financial year. BTC made, as is referred to above in this section, approximately £115 million of revenue investments. Inflation in minimum wages, rent, rates and utilities of approximately £40 million, increased staffing and distribution costs from increased sales volumes of another approximately £20 million, and additional pension costs of £15 million were offset by approximately £90 million of cost savings arising from productivity improvements (including from the "Getting in Shape" programme).

In spite of BOL selling more than one million pairs of glasses, turnover fell by 8.6% to £182.5 million and operating profit before exceptionals fell by 67.4% to £4.2 million. The fall in turnover and profits was principally as a result of intense competition in the optical market and lower consumer spending on fashion items.

BRI's operating losses before exceptionals fell by 28% to £8.2 million principally as a result of the strategy initiated and implemented in previous financial years of closing unprofitable standalone Boots stores outside the UK, the Republic of Ireland and Thailand and establishing implants in a "Boots" branded environment within host retailers' stores.

BHI had a successful year. Like-for-like turnover increased by 5.8% driven by strong sales of BHI's core brands including "Nurofen", "Strepsils" and "Clearasil".

The year saw the final stage of the Boots Group's withdrawal from its dentistry and laser eye correction businesses which, the Boots Group believed, had little prospect of making acceptable returns. This gave rise to a total exceptional loss of £56.7 million.

The Boots Group continued to pursue its plans, announced in earlier financial years, to reduce its head office headcount (the headcount reduction plan is part of the "Getting in Shape" programme referred to above) and to make its purchasing operations more efficient. In total, the Boots Group reduced its head office headcount by 1,000 and reduced purchasing costs by approximately £30 million by (amongst other things) sourcing from the Far East, conducting electronic auctions and taking a more structured approach to negotiating with suppliers.

Financial Performance

Distributions to shareholders

The Boots Group's financial strategy was reviewed during the year to 31 March 2004 and the Boots Group announced in May 2004 that it intended to increase its debt by returning £700 million of surplus capital to shareholders in order to make its balance sheet more efficient and enhance earnings per share. The surplus capital was to be returned in two tranches, with the second tranche dependent on future business performance.

By May 2005, the Boots Group had implemented the first tranche of the return of capital, repurchasing shares at an aggregate cost of £350 million. Net debt for the Boots Group increased from £148.5 million to £594.1 million to finance, amongst other things, these repurchases.

Turnover

The Boots Group's turnover from continuing operations increased by 2.9% to £5,442 million. This growth in turnover was largely the result of growth in BTC's turnover of 3.8% (which, as a result of the UK consumer slowdown and intense competition in the toiletries and OTC medicines markets, was, as indicated above, below BTC's expectations) and the 5.8% like-for-like increase in BHI's turnover, each of which is described above.

Operating profit

Group operating profit from continuing operations fell by 10.9% to £508.2 million. This fall in operating profit was principally caused by the consumer downturn in the second half of the year, continuing reductions in the prices of toiletries products and OTC medicines and a 7% increase in BTC's operating costs, each of which is described above. As is referred to above, general cost inflation, additional pension charges and increased store and distribution costs from higher volumes were largely offset by productivity improvements (including the "Getting in Shape" programme referred to above).

Profit before tax

Profit before tax declined by 26.3% to £427.6 million. The exceptional loss of £56.7 million relating to the exit and disposal of the dentistry and laser eye correction businesses referred to above contributed to this decline. Profit before tax was also impacted by a higher interest charge for the year (£19.8 million compared to £5.5 million for the previous year) as a result of the decision (which is described in further detail above) to increase debt to improve balance sheet efficiency. In addition, the previous financial year included an exceptional gain of £36.4 million largely relating to the disposal of property.

Pensions

The pension cost for the year for the Boots Group pension schemes was £61 million (compared to £34 million in the previous financial year) as a result of increased profit and loss charges arising partly from the expiry of previous valuation surpluses and partly from diminishing returns.

Working capital

Working capital increased by £118 million in the year. This was mainly due to new store openings in BTC's business and increased debtors arising from strong final quarter turnover in BHI.

Cash flow

Cash flow from operating activities before exceptionals was £529.4 million (compared to £655.1 million in the previous financial year), lower than the previous year due to the lower operating profits and the increase in working capital, each of which is described above.

Accounting policies

FRS 20 'Share-based payment'

The prior year operating profit was reduced by £1.1 million to reflect the impact of the early adoption of FRS20 which amended the accounting for share based payments. An amount of £1.1 million was 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 charges on operating profit and net assets in the year ended 31 March 2005 was nil.

UITF 38 'Accounting for ESOP trusts'

During the year, the introduction of UITF 38 by the Accounting Standards Board affected the treatment of fixed asset investments in own shares in the balance sheet. A prior year adjustment as at 31 March 2004 was made to reduce fixed asset investments by £74.7 million, increase profit and loss reserves by £64.6 million and create an own shares reserve in equity of £139.3 million. Net assets at 31 March 2004 were reduced by £74.7 million as a result of these changes. Under UITF 38, any impairment in the carrying value of shares held in the qualifying employee share trust was no longer charged to the profit and loss account, and therefore an amount of £39.8 million in respect of previous year's impairments was credited to the Statement of Total Recognised Gains and Losses.

5. The Financial Year Ended 31 March 2004

Operating Review

During the year, Richard Baker joined the Boots Group as Chief Executive Officer and the Boots Group implemented its strategy for BTC becoming a more modern, efficient and competitive retail business which involved a continuation of many of the initiatives commenced in the previous financial years. This involved (amongst other things) the Boots Group making a substantial investment in its core BTC stores, re-organising its supply chain and exiting certain non-core services businesses.

BTC made a significant investment during the year to modernise its stores based on three simplified formats, including updating 192 stores, improving the information technology capabilities of its stores and opening 19 new stores.

BTC's turnover rose by 4.5% over the year (3.9% on a like-for-like basis). Renewed focus on BTC's health business contributed to a turnover increase of 6.0% and, in particular, a 6.3% increase in the turnover of the prescription dispensing category. Turnover in the beauty business increased by 4.7%. Within this business, the cosmetics and fragrances category continued to perform well as a result of, amongst other things, new fragrance launches and the inclusion of a larger range of prestige brands in BTC's stores, both in terms of aggregate turnover and market shares, however, toiletries turnover increased by only 0.9%, principally as a result of intense competition resulting in price deflation in this market. Turnover in the lifestyle business was broadly unchanged over the year. Overall, BTC's gross margin fell by a third of a percentage point over the year principally as a result of the reduction in BTC's prices.

BOL had a difficult year in a highly competitive market, with turnover falling by 3% on a like-for-like basis.

BRI's turnover increased by 20.5%, at comparable exchange rates, to £43.0 million while operating losses before exceptionals fell by 54.3% over the year to £10.4 million. This reflected, amongst other things, the continued implementation of the Boots Group's plan to close Boots standalone stores outside the UK, the Republic of Ireland and Thailand and establish "implants" in third party retailers' stores.

BHI achieved turnover of more than half a billion pounds for the first time. This represented turnover growth of 9.6%. Turnover of BHI's core brands increased by 10.0% largely as a result of new product innovation and additional marketing investment including the re-packaging of "Nurofen" and "Strepsils" and the launch of a new Nurofen migraine pain variant.

During the year, the Boots Group concluded the divestment of its properties held for investment purposes, resulting in an exceptional gain of £36.4 million.

In January 2004, the Boots Group announced it would be cutting around 900 jobs pursuant to its "Getting in Shape" programme, reducing numbers in virtually every department. Redundancy costs arising in connection with this programme were £45.5 million.

Financial Performance

Distributions to Shareholders

The Boots Group continued the policy initiated in previous financial years of returning surplus capital to shareholders by repurchasing shares in the market. The cost of the share repurchases in the year to 31 March 2004 was £259.9 million (compared to £462.8 million in the previous financial year).

Turnover from continuing operations

The Boots Group's turnover from continuing operations increased by 4.7% to £5,326.4 million. The increase reflected the continuing good progress being made by BTC, whose turnover increased by 4.5% as discussed above, and the strong growth in BHI's turnover as also described above.

Operating profit

Group operating profit including share of joint ventures increased by 1.6% to £550.1 million. Although the growth initiatives discussed above and the redundancy costs of £45.5 million from the "Getting In Shape" programme increased the Boots Group's costs, there were significantly lower losses from businesses either closed or rationalised by the Boots Group in the previous financial year (such as the Wellbeing Services business and the rationalisation of BRI, each of which is described below).

Profit before tax

Profit before tax increased by 18.0% to £581.0 million. This was largely the result of an exceptional gain of £36.4 million, primarily relating to the disposal of property. In addition, the previous year included a £123.2 million loss on the sale of Halfords Limited and £34.5 million of costs related to the closure of part of the Wellbeing Services business, although these losses were partially offset by one-off gains last year of £92 million from the closure of interest rate swaps.

Working capital

Working capital increased by £47.5 million in the year. This was mainly due to investment in stock as a result of opening 19 new edge-of-town stores.

Cash flow

The Boots Group continued to generate significant cash flow from operating activities. Cash flow from operating activities before exceptional items was £655.1 million (compared to £590.4 million for the previous financial year) primarily as a result of provisions in respect of the "Getting in Shape" programme (as described above).

Accounting policies

In November 2003, the Accounting Standards Board issued requirements on revenue recognition, in the form of Application Note G to FRS5 'Reporting the Substance of Transactions'. This application note had limited impact on the Boots Group as existing accounting policies largely complied with the new provisions.

PART VI

PART A: Capital Resources — Boots Group

1. Overview

Boots is a holding company whose principal assets are its investments in the shares of its subsidiaries and loans to its subsidiaries. The liquidity and capital resource requirements of each subsidiary vary in the light of the business conducted by it.

As a holding company, Boots' principal sources of funds are funds which may be raised from time to time from the issue of debt and equity securities and bank or other borrowings, as well as cash dividends received from its subsidiaries and money borrowed from its subsidiaries. The ability of Boots and its subsidiaries to pay dividends is dependent on the availability of distributable reserves in each relevant company.

2. Capitalisation and indebtedness

The following tables show the capitalisation and indebtedness of the Boots Group as at 31 March 2006 and the net cash of the Boots Group as at 31 March 2006. The figures for capitalisation have been extracted from Boots' audited consolidated financial statements for the year ended 31 March 2006. The indebtedness and net cash have been extracted from Boots' audited consolidated financial statements for the year ended 31 March 2006. The figures exclude balances between entities that comprise the Boots Group.

Total capitalisation and indebtedness as at 31 March 2006	**2006 £million**
Current liabilities	
Financial liabilities:	
Secured[1]	**19.8**
Unguaranteed/unsecured	**163.3**
Derivative financial instruments:	
Unguaranteed/unsecured	**0.3**
	183.4
Non-current liabilities	
Financial liabilities:	
Secured[1]	**45.3**
Unguaranteed/unsecured	**529.6**
Derivative financial instruments:	
Unguaranteed/unsecured	**0.3**
	575.2
Total indebtedness	**758.6**
Shareholders' equity (excluding retained earnings):	
Share capital	**180.6**
Share premium	**2.3**
Other reserves	**337.4**
Total capitalisation	**520.3**
Total capitalisation and indebtedness	**1,278.9**

1 Secured indebtedness relates to finance leases where security is taken over leased assets (primarily vehicles and IT assets).

Net cash analysis as at 31 March 2006	2006 £million
Non-current assets:	
Derivative financial instruments	**1.7**
Current assets:	
Cash and cash equivalents	**856.0**
Derivative financial instruments	**0.7**
Available for sale assets	**0.2**
	856.9
Current liabilities:	
Borrowings	**(183.1)**
Derivative financial instruments	**(0.3)**
	(183.4)
Non-current liabilities:	
Borrowings	**(574.9)**
Derivative financial instruments	**(0.3)**
	(575.2)
Net cash	**100.0**

3. Contingent indebtedness and indirect debt

As at 31 March 2006, the Boots Group did not have any contingent indebtedness or indirect debt.

4. Cash flow analysis

Cash flow analysis for the years ended 31 March 2006 and 31 March 2005 under IFRS	2006 £million	2005 £million
Cash generated by operations	**500.8**	472.3
Income taxes paid	**(68.5)**	(117.0)
Net cash from operating activities — continuing operations	**432.3**	355.3
Cash outflow from interest paid and interest received	**(20.0)**	(21.2)
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
Acquisitions/disposals[1]	**—**	(5.0)
Dividends paid[2]	**(214.4)**	(225.1)
Repurchase of shares	**(50.0)**	(303.3)
Cash (outflows)/inflows from proceeds from issue of share capital and (purchase)/disposal of own shares	**(0.1)**	9.8
Cash (outflows)/inflows from advance of borrowings and repayment of finance leases	**(10.9)**	276.5
Net increase/(decrease) in cash and cash equivalents — continuing operations	**264.1**	(179.4)
Net cash inflow from discontinued operations[3]	**38.8**	25.3
Net cash flows arising from sale of businesses[4]	**1,854.5**	(3.3)
Special dividend paid	**(1,425.9)**	—
Net increase/(decrease) in cash and cash equivalents	**731.5**	(157.4)

1 Excluding the disposal of the BHI business
2 Excluding the Special Dividend of £1,425.9 million, which is reportedly separately.
3 During the year ended 31 March 2006, discontinued operations had cash inflows from operating activities of £67.3 million (2005 £44.8 million), cash outflows from investing activities of £7.2 million (2005 £17.2 million) and cash outflows from financing activities of £21.3 million (2005 £2.3 million)
4 Net consideration received from disposal of BHI business of £1.926 billion less costs of disposal paid of £71.5 million

The selected cash flow information presented above has been prepared in accordance with IFRS and has been extracted from the Boots Group's audited financial statements for the year ended 31 March 2006.

Cash flow analysis for the years ended 31 March 2005 and 31 March 2004 under UK GAAP	2005 £million	2004 £million
Cash inflow from operating activities	**514.7**	637.8
Net cash outflow from returns on investment and servicing of finance	**(20.4)**	(22.6)
Taxation paid	**(128.8)**	(166.2)
Purchase of fixed assets	**(303.4)**	(194.2)
Disposal of fixed assets	**20.5**	149.6
Net cash outflow from acquisitions and disposals	**(9.0)**	(2.2)
Equity dividends paid	**(225.1)**	(229.1)
Cash (outflow)/inflow before use of liquid resources and financing	**(151.5)**	173.1
Cash inflow from management of liquid resources	**219.7**	53.5
Cash inflow/(outflow) from change in borrowings and lease financing	**287.6**	(16.9)
Repurchase of shares	**(303.3)**	(264.6)
Net cash inflow from issue of ordinary shares and disposal of own shares	**9.8**	2.6
Increase/(decrease) in cash in the year	**62.3**	(52.3)

The selected cash flow information presented above has been prepared in accordance with UK GAAP and has been extracted without material adjustment from the Boots Group's audited financial statements for the years ended 31 March 2005 and 31 March 2004.

The Boots Group, and in particular the BTC business, generated substantial cash from business operations in the three years ended 31 March 2006, 2005 and 2004. In the year ended 31 March 2004, the cash inflow from operating activities was £637.8 million and for year ended 31 March 2005 £514.7 million. Excluding the discontinued BHI business, the equivalent cash generated by operations for year ended 31 March 2006 was £500.8 million (2005 £472.3 million). The other major source of funds over the last three years has been disposals of businesses and fixed assets. In the year ended 31 March 2004 there was a £149.6 million cash inflow from the disposal of fixed assets, with a further £20.5 million in the year ended 31 March 2005. In the year ended 31 March 2006, there was a total cash inflow of £2,162.8 million, of which £1,854.5 million was from the net disposal proceeds of the BHI business and £298.0 million from the sale and leaseback of 312 properties.

The main uses of cash during the last three years have been:

- Purchase of fixed assets (£194.2 million (including the BHI discontinued operation), £276.5 million, and £181.1 million for the years ended 31 March 2004, 2005 and 2006 respectively) with the period ended 31 March 2005 higher at £276.5 million as a result of substantial investment in the BTC business during that year;
- Taxation payments (£166.2 million (including relating to the discontinued BHI operation), £117.0 million and £68.5 million for the years ended 31 March 2004, 2005 and 2006 respectively);
- Equity dividend payments (£229.1 million, £225.1 million and £1,640.3 million for the years ended 31 March 2004, 2005 and 2006 respectively) with the amount for the period ended 31 March 2006 including £1,425.9 million as a special dividend following the disposal of the BHI business; and
- Repurchase of shares (£264.6 million, £303.3 million and £50.0 million for the years ended 31 March 2004, 2005 and 2006 respectively) under the Boots Group's share buyback programmes.

As a result of these cash flows, the Boots Group's net indebtedness increased by £97.0 million in the period ended 31 March 2004 to £148.5 million and then by a further £445.6 million in the period ended 31 March 2005 to £594.1 million, which was restated to £641.2 million following the introduction of IFRS. The increase in the period ended 31 March 2005, was primarily as a result of the share buyback programme to make the Boots Group balance sheet more efficient. During the period to 31 March 2006, there was a £741.2 million reduction in net indebtedness primarily as a result of the BHI disposal proceeds (net of the special dividend payment) and the sale and leaseback transaction which resulted in a net cash position of £100.0 million at 31 March 2006.

5. Funding arrangements and treasury policies

Funding arrangements

The Boots Group finances its operations through a mixture of retained profits, capital markets funding, bank borrowings and leases. The objective is to ensure that the Boots Group has access to liquidity at all times and can fund its operations in a cost effective manner. This is achieved through (amongst other things) arranging funding ahead of requirements and arranging undrawn committed bank facilities in excess of foreseeable need.

In general terms, in the third quarter of each calendar year, the Boots Group buys stock in anticipation of the Christmas trading period and, as a result, the Boots Group's funding requirements generally peak in that quarter. During this period the Boots Group typically borrows on short-term uncommitted facilities or by drawing on its committed bank facility.

In addition to retained profits and leases, the Boots Group is currently funded from the following sources:

- Boots entered into a £600 million syndicated facility agreement in July 2004 which matures in July 2009. Drawings made pursuant to this facility have been used for general corporate purposes. As at 31 May 2006, the latest practicable Business Day prior to the publication of this document, no drawings were made under this facility. It is intended that this facility will be cancelled on Completion.

- Boots issued a £300 million fixed rate (5.5%) bond in 1997. The proceeds of the issue of this bond, which matures in 2009, have been used for general corporate purposes.

- Boots established a £2 billion Euro Medium Term Note ("MTN") programme in July 2004. Pursuant to the MTN programme, Boots has issued the following notes:

  (A) €300 million floating rate notes which mature in October 2007; and

  (B) Five privately placed notes, each of which mature between 2007 and 2009. The aggregate proceeds raised from the issue of these notes was £26 million.

  The proceeds of each of the notes issued pursuant to the MTN programme have been used to fund the Boots' share buyback programme and for general corporate purposes.

Treasury policies

The Boots Group's treasury function has responsibility for the Boots Group's funding and cash management, and manages the Boots Group's counterparty credit, interest rate and currency risks. The Boots Group enters into financial instruments solely for the purpose of managing these risks and the undertaking of speculative transactions is not permitted.

The Boots Group's interest rate policy is to maintain a mix of fixed and floating interest rates to obtain an appropriate balance between certainty of borrowing costs and the need for flexibility to repay debt. As at 31 March 2006, the Boots Group had £167.4 million of fixed rate debt and £523.7 million of floating rate debt, including the impact of financial instruments.

The Boots Group currently holds the vast majority of its cash and cash equivalent resources in sterling, although there is limited hedging of its euro denominated assets and cash flows through holding euro denominated debt.

The Boots Group also enters into limited currency hedging arrangements in respect of its committed future purchases for BTC.

6. Committed investments

On 17 November 2005, the Boots Group agreed to pay £85 million into the Boots Pension Scheme following the completion of the sale of BHI. This payment was completed in early April 2006 and was funded from the proceeds of the disposal of BHI. As discussed in paragraph 7 of Part XIII ("Additional Information") of this document, the Boots Group agreed to make additional contributions (over and above the normal accrual rate) to the Boots Pension Scheme of £11.7 million per annum for a ten year period beginning in 2004. It is intended that these contributions will be funded from operating cash flows. As discussed below in Part B of this Part VI, with effect from the Effective Date, TBC has agreed to assume the obligations of Alliance UniChem under the principal Alliance UniChem defined benefit pension scheme and Boots has agreed to guarantee these obligations of TBC. It is intended that such obligations will be funded from operating cash flows.

As described in paragraph 4 of Part III ("Information on Boots") of this document, on 14 March 2006, Boots Group announced that it intended to implement, and has subsequently commenced, a substantial investment programme in respect of 700 of its smaller stores (including 100 BOL practices), its supply chain and its information technology systems. This investment programme is to be funded from the proceeds of the disposal of BHI.

PART B: Capital Resources — Alliance UniChem Group

1. Overview

Alliance UniChem is a holding company whose principal assets are its investments in the shares of its subsidiaries and associates via an intermediate holding company called Alliance UniChem Group Limited, and loans to subsidiary companies. The liquidity and capital resource requirements of each subsidiary vary in the light of the business conducted by it.

Alliance UniChem Group's principal source of funds are funds which may be raised from time to time from the issue of debt and equity securities and bank or other borrowings and financing linked to securitisation of receivables, and interest income and cash dividends received from its subsidiaries and associates. The ability of Alliance UniChem and its subsidiaries and associates to pay dividends is dependent on the availability of distributable reserves in the relevant companies.

2. Capitalisation and indebtedness

The following tables show the capitalisation and indebtedness of the Alliance UniChem Group and the net indebtedness of the Alliance UniChem Group as at 31 March 2006. The figures for capitalisation have been extracted from the audited financial statements of the Alliance UniChem Group as at 31 December 2005. There has been no material change to these figures from that date.

The figures in the net indebtedness table have been extracted from the underlying accounting records of the Alliance UniChem Group as at 31 March 2006, and show the external net financial indebtedness of the Alliance UniChem Group, and exclude balances between entities that comprise the Alliance UniChem Group.

Total capitalisation and indebtedness as at 31 March 2006	**2006 £million**
Current liabilities	
Financial liabilities:	
Borrowings	
Secured[1]	**11.9**
Unguaranteed/unsecured	**436.6**
Financing linked to securitisation	
Secured[2]	**291.9**
Derivative financial instruments:	
Unguaranteed/unsecured	**13.0**
	753.4
Non-current liabilities	
Financial liabilities:	
Borrowings	
Secured[1]	**34.2**
Unguaranteed/unsecured	**558.9**
Financing linked to securitisation	
Secured[2]	**104.7**
Derivative financial instruments:	
Unguaranteed/unsecured	**98.1**
	795.9
Total indebtedness	**1,549.3**
Shareholders' equity (excluding retained earnings)	
Share capital	**36.2**
Share premium	**509.4**
Other reserves	**(19.9)**
Total capitalisation	**525.7**
Total capitalisation and indebtedness	**2,075.0**

1 Secured borrowings relate to finance leases where security is taken over leased assets (primarily land and buildings) and bank borrowings secured on inventories, land and buildings.

2 Secured on trade receivables as described in paragraph 5 of this Part B of this Part VI.

Net indebtedness analysis as at 31 March 2006	**2006 £million**
Non-current assets:	
Derivative financial instruments	**2.0**
Current assets:	
Cash and cash equivalents	**161.2**
Derivative financial instruments	**0.4**
	161.6
Current liabilities:	
Financial liabilities	
Borrowings	**(448.5)**
Financing linked to securitisation	**(291.9)**
Derivative financial instruments	**(13.0)**
	(753.4)
Non-current liabilities:	
Financial liabilities	
Borrowings	**(593.1)**
Financing linked to securitisation	**(104.7)**
Derivative financial instruments	**(98.1)**
	(795.9)
Net indebtedness	**(1,385.7)**

3. Contingent indebtedness and indirect debt

The Alliance UniChem Group offers its UK wholesale customers access to long-term financing for their pharmacy businesses through financing arrangements developed by the Alliance UniChem Group with its banks. Total loans outstanding from banks to Alliance UniChem customers through these financing arrangements were £187.9 million at 31 March 2006. The Alliance UniChem Group supports these arrangements through the provision of guarantees, which at 31 March 2006 amounted to £30.8 million. These have been accounted for under IAS 37.

4. Cash flow analysis

Cash flow analysis for the years ended 31 December 2005 and 31 December 2004 under IFRS	**2005 £million**	2004 £million
Cash generated by operations	**275.1**	311.1
Tax and interest	**(98.3)**	(94.4)
Dividends (net)	**(30.6)**	(27.5)
Acquisitions and disposals	**(34.1)**	(103.4)
Net capital expenditure	**(75.8)**	(58.9)
Other investments (net)	**(29.6)**	10.8
Other	**4.9**	(7.2)
Total cash flow	**11.6**	30.5
Currency and fair value adjustments on financial instruments	**36.9**	(9.9)
Decrease in net borrowings[1]	**48.5**	20.6

[1] 2005 decrease with reference to IAS 39 adjusted opening borrowings.

The above unaudited cash flow statements have been extracted from the financial review contained in the 2005 Annual Report of the Alliance UniChem Group and numbers derived from the audited financial statements for the two years ended 31 December 2005 prepared in accordance with IFRS.

2005

Net cash generated by operations was £275.1 million. Working capital net outflow was £24.5 million, which was £53.5 million more than in 2004 due to lower levels of working capital at the beginning of the year compared to the start of 2004. Year on year, trade working capital efficiency improvements totalled approximately £25 million.

The net cash outflow on acquisitions and disposals of businesses, associates, and available-for-sale investments was £34.1 million, including £38.8 million of borrowings acquired with businesses. The principal cash outflows within this net number were £122.3 million for the purchase of retail pharmacies, and £28.3 million for the purchase of wholesale businesses in Spain. The principal cash inflow was £91.5 million arising on the disposal of 51% of the Alliance UniChem Group's wholesale business in Portugal.

Net capital expenditure was £75.8 million of which £56.9 million was for growth and efficiency projects.

Other investments (net) of £29.6 million mainly comprised £30.6 million of net expenditure on acquiring shares in Alliance UniChem for the UniChem 1992 Employee Trust.

Cash flow analysis for the years ended 31 December 2004 and 31 December 2003 under UK GAAP

	2004 £million	2003 £million
Operating cash flow	**310.1**	322.3
Interest and dividends	**(72.1)**	(78.2)
Tax	**(49.0)**	(46.2)
Maintenance capital expenditure	**(32.2)**	(24.1)
Free cash flow	**156.8**	173.8
Growth capital expenditure and financial investment	**(118.6)**	(65.5)
Cash flow before financing	**38.2**	108.3
Financing	**(12.1)**	1.3
Translation differences	**(9.9)**	(56.6)
Decrease in net borrowings	**16.2**	53.0

The above unaudited cash flow statements have been extracted from the financial review contained in the 2004 Annual Report of the Alliance UniChem Group and numbers derived from the audited financial statements for the two years ended 31 December 2004 prepared in accordance with UK GAAP.

2004

Net cash inflow from operating activities at £310.1 million benefited from an estimated £39 million inflow from improved trade working capital ratios, building upon the efficiencies achieved in 2003. Working capital net inflow was £28.5 million.

Net capital expenditure on tangible fixed assets was £58.9 million, including £32.2 million of gross expenditure on replacement fixed assets.

Total cash paid for the purchase of businesses was £88.7 million. This expenditure was mainly on the acquisition of retail pharmacies. In addition, £54.0 million of cash was spent on associates.

2003

Net cash inflow from operating activities was particularly strong at £322.3 million. Working capital net inflow was £68.6 million, all key year-end working capital ratios improving compared to the start of the year and working capital reductions being achieved in all wholesale businesses.

Net capital expenditure on tangible fixed assets was £38.0 million, including £24.1 million of gross expenditure on replacement fixed assets. Total cash paid for acquisitions was £59.2 million. This expenditure was mainly on the purchase of retail pharmacies.

5. Funding arrangements and treasury policies

Funding arrangements

The Alliance UniChem Group diversifies its sources of funding so as not to be reliant on any one financial market. Currently, the Alliance UniChem Group finances its borrowings from the bank and private placement markets and it uses the securitisation market to finance part of its trade receivables.

In managing its liquidity requirements, the Alliance UniChem Group aims to balance certainty of funding with a cost-effective and flexible borrowing structure. In particular, the Alliance UniChem Group policy is to have at least 70% of its maximum anticipated net borrowings over a twelve month forward period covered by term loans or committed facilities. Furthermore, forecast undrawn committed borrowing facilities over a three month forward period are targeted to be not less than £100 million.

In addition to retained profits and leases, the Alliance UniChem Group is funded currently mainly from the following sources:

- Alliance UniChem issued the following private placement notes between 10 March 1999 and 26 June 2002: US$113 million of 6.67% Senior Notes, US$300 million of 7.19% Series A Senior Notes, US$173 million of 6.55% Series A Senior Notes, US$57 million of 6.63% Series A Senior Notes, €30 million of 6.07% Series B Senior Notes and £50 million of 7.01% Series B Senior Notes. The notes have maturity dates which range from 10 March 2008 to 26 June 2017, and contain covenants usual for this type of funding.

- Alliance UniChem entered into a €390 million facility agreement with three banks and a bilateral club facility of €435 million in October 2005. Both facilities are of a term of 364 days with the option available to Alliance UniChem to extend for a further twelve months to October 2007. Any drawings made pursuant to this facility have been used for general corporate purposes. It is intended that these facilities will be repaid and cancelled following Completion.

- In 2001, the Alliance UniChem Group entered into a five year agreement to sell UK receivables to Alliance No. 1 PLC (Alliance No.1). Alliance No.1 has issued £100 million secured notes to independent investors to finance the purchase of the receivables. The Alliance UniChem Group has provided finance totalling £13.9 million, which is subordinated, representing the excess of the face value of the receivables sold over the £100.0 million received. The secured notes are serviceable only from the cash flows generated from the securitised receivables together with £13.9 million of finance provided by the Alliance UniChem Group. In accordance with SIC12, Alliance No 1 has been determined to be controlled by the Alliance UniChem Group and consequently has been consolidated within the Alliance UniChem Group financial statements. The proceeds received have been used for general corporate purposes.

- Receivables of €425 million from French and Italian pharmacies have been securitised under five year programmes that mature in 2007. The Alliance UniChem Group is not obliged to support any losses in respect of the amounts advanced under the securitisation arrangements. The providers of these arrangements have agreed in writing that they will seek repayment of the finance as to both principal and interest only to the extent that sufficient funds are generated from the receivables discounted and that it will not seek recourse in any other form.

In respect of the Italian receivables, these have been sold to Alleanza No.1 which has been determined to be controlled by the Alliance UniChem Group and consequently has been consolidated in the Alliance UniChem Group financial statements. The French receivables have been sold to a multi-purpose vehicle which is not treated as a subsidiary under SIC12 as it is not deemed to be controlled by the Alliance UniChem Group.

Treasury policies

The Alliance UniChem Group operates a pan-European cash pool as well as local cash pooling in each business. The policy on the investment of cash is to restrict it to money market instruments with a maturity of three months or less.

The Alliance UniChem policy on interest rate risk management is to limit the impact of interest rate volatility on profits. The policy fixes the interest cost on that proportion of the total of the Alliance UniChem Group's average projected net borrowings and financing linked to securitisation that will give a minimum 95% statistically significant confidence level that the Alliance UniChem Group's interest cover will not fall below four times projected total operating profit (including share of associates) before exceptional items over a three year forward period.

The Alliance UniChem Group owns significant businesses and investments in continental Europe, which it partly hedges with borrowings denominated in the same currency, either directly or through the use of cross currency swaps.

The Alliance UniChem Group has a policy of hedging foreign currency denominated transaction exposures, other than those offset by corresponding translation exposures, by entering into forward foreign exchange sale and purchase contracts where such exposures arise.

6. Committed investments

Under a funding agreement dated December 2003, Alliance UniChem agreed to make additional annual contributions of £4.3 million to Alliance UniChem's principal UK defined benefit pension scheme in the period from 2006 to 2017. Alliance UniChem has recently agreed with the trustee to increase with effect from 31 March 2006 the additional contributions to £10.8 million per annum, for a period of five years, pending the outcome of the actuarial valuation as at 1 January 2006. In addition, a further £0.5 million per month will be paid in April and May 2006. It is intended that these contributions will be funded from operating cash flows. With effect from Completion, TBC has agreed to assume these obligations and Boots has agreed to guarantee these obligations of TBC.

PART C: Capital Resources — Enlarged Group

Boots has entered into a £1.1 billion revolving credit facility which is to mature on the earlier of the date which is 12 months after the Effective Date and 29 March 2008, with an option at the sole discretion of Boots to extend the facility for an additional twelve months from the earlier of those two dates. Drawings under this new facility are to be used:

- to refinance certain of Alliance UniChem Group's debt arrangements in connection with the Merger; and

- for the general corporate purposes of the Enlarged Group.

The new facility contains covenants which are usual for this type of funding for an investment grade borrower. It is intended that this new facility will replace Boots' £600 million syndicated facility agreement and the two existing Alliance UniChem revolving credit facilities of €390 million and €435 million respectively which will be cancelled on the Completion.

It is intended that Boots' £300 million fixed rate bond and the €300 million floating rate notes and the six privately placed notes issued under the Boots' £2 billion MTN programme will continue to be available to the Enlarged Group following Completion. It is also intended that Alliance UniChem's private placement notes maturing between 2008 and 2012 will also continue to be available to the Enlarged Group following Completion.

It is intended that, following Completion, the Enlarged Group will review its funding arrangements but that it will maintain an investment grade credit rating and continue to access the capital markets as and when appropriate.

It is intended that the treasury policies of the Enlarged Group will be reviewed following Completion. The current treasury policies will continue to apply pending the outcome of this review.

PART VII

HISTORICAL FINANCIAL INFORMATION RELATING TO THE BOOTS GROUP

For the year ended 31st March 2006, Boots was required for the first time to prepare audited consolidated financial statements in accordance with IFRS.

For the two years ended 31st March 2005, Boots prepared consolidated financial statements under the historical cost convention in accordance with UK Generally Accepted Accounting Principles (UK GAAP).

The audited consolidated financial statements of Boots for the year ended 31st March 2006, together with the audit report thereon prepared by KPMG Audit Plc of 2 Cornwall Street, Birmingham, B3 2DL, are included in this Part VII.

The audited consolidated financial statements of Boots for the two years ended 31st March 2005, together with audit reports thereon prepared by KPMG Audit Plc, are incorporated by reference into this document.

Statutory accounts for each of the two years ended 31st March 2005 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 31st March 2006 will be delivered to the Registrar of Companies.

The auditor's report of KPMG Audit Plc for each of the three years ended 31st March 2006 was unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act.

The related notes referred to in the independent auditor's report of KPMG Audit Plc for the year ended 31st March 2006 relate to the notes to Boots' audited consolidated financial statements as set out in this Part VII.

In this Part VII, the term "the Company" refers to the Boots Group PLC and the term "the Group" refers to the Boots Group and its subsidiary undertakings.

Independent auditors' report
to the members of Boots Group PLC

KPMG Audit Plc
2 Cornwall Street
Birmingham B3 2DL

We have audited the group and parent company financial statements (the "financial statements") of Boots Group PLC for the year ended 31 March 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Statement of Recognised Income and Expense, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referenced from the Business Review section of the Directors' Report. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31st March 2006 and of its profit for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31st March 2006;

- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and

- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc, Birmingham
Chartered Accountants
Registered Auditor
17th May 2006

Boots Group income statement for the year ended 31st March 2006

	Notes	2006 £m	2005 £m
Continuing operations			
Revenue	2	**5,027.4**	4,935.5
Cost of sales		**(2,782.8)**	(2,809.2)
Gross profit		**2,244.6**	2,126.3
Selling, distribution and store costs		**(1,714.2)**	(1,514.0)
Administrative costs		**(221.8)**	(204.8)
Other operating income	6	**160.1**	4.9
Other operating expenses	6	**(99.5)**	(11.5)
Group operating profit before finance costs	2,5	**369.2**	400.9
Financial income		**186.8**	153.3
Financial expenses		**(207.1)**	(194.2)
Net finance costs	7	**(20.3)**	(40.9)
Profit before taxation		**348.9**	360.0
Income tax expense	8	**(44.5)**	(105.0)
Profit after taxation from continuing operations		**304.4**	255.0
Discontinued operations			
Profit from discontinued operations	3	**1,469.3**	11.4
Profit for the year	24	**1,773.7**	266.4
Attributable to:			
Equity holders of the parent	24	**1,773.7**	265.9
Minority interest[1]	24	**—**	0.5
		1,773.7	266.4
Basic earnings per share — total	11	**259.2p**	35.9p
Basic earnings per share — continuing	11	**44.5p**	34.4p
Diluted earnings per share — total	11	**258.9p**	35.9p
Diluted earnings per share — continuing	11	**44.4p**	34.4p

1 Minority interests all relate to discontinued operations.

Boots Group statement of recognised income and expense for the year ended 31st March 2006

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

1 Minority interests all relate to discontinued operations.

Foreign exchange translation differences include tax of £nil (2005 £nil).

Foreign exchange translation differences are net of gains/(losses) on net investment currency hedges of £0.6m (2005 £(4.9)m) and associated tax charge of £0.2m (2005 £0.4m).

Actuarial (losses)/gains on defined benefit pension schemes are net of tax of £23.1m (2005 £(4.8)m).

Company

There is no recognised income or expense for the company other than the profit for the year as stated in note 10.

Boots Group and parent company balance sheets as at 31st March 2006

	Notes	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
ASSETS					
Non-current assets					
Goodwill	12	**—**	0.4	**—**	—
Other intangible assets	12	**146.8**	441.8	**—**	—
Property, plant and equipment	13	**1,267.9**	1,452.4	**—**	—
Investments	14	**—**	—	**3,045.8**	5,124.9
Other receivables	16	**34.4**	58.6	**0.4**	—
Deferred tax assets	18	**54.7**	65.4	**1.4**	0.4
		1,503.8	2,018.6	**3,047.6**	5,125.3
Current assets					
Inventories	15	**594.4**	713.6	**—**	—
Trade and other receivables	16	**462.0**	522.2	**1,231.1**	712.0
Current tax assets	9	**13.5**	11.5	**12.2**	9.4
Available for sale assets		**0.2**	0.2	**—**	—
Cash and cash equivalents	17	**856.0**	128.7	**774.0**	27.7
Non-current assets held for sale	3	**1.2**	0.7	**—**	—
		1,927.3	1,376.9	**2,017.3**	749.1
Total assets		**3,431.1**	3,395.5	**5,064.9**	5,874.4
LIABILITIES					
Current liabilities					
Short term borrowings and overdrafts	20	**(183.1)**	(183.8)	**(290.8)**	(110.2)
Current tax liabilities	9	**(56.2)**	(95.1)	**—**	—
Trade and other payables	19	**(633.1)**	(658.9)	**(753.5)**	(890.2)
Provisions	23	**(62.1)**	(11.7)	**—**	—
		(934.5)	(949.5)	**(1,044.3)**	(1,000.4)
Non-current liabilities					
Borrowings	20	**(574.9)**	(587.1)	**(531.1)**	(537.7)
Other payables	19	**(30.0)**	(50.9)	**(0.3)**	(0.5)
Deferred tax liabilities	18	**(96.5)**	(136.6)	**—**	(0.4)
Non-current tax liabilities	9	**(0.3)**	(0.6)	**—**	—
Retirement benefit obligations	30	**(56.2)**	(37.6)	**—**	—
Provisions	23	**(87.2)**	(12.3)	**—**	—
		(845.1)	(825.1)	**(531.4)**	(538.6)
Total liabilities		**(1,779.6)**	(1,774.6)	**(1,575.7)**	(1,539.0)
Net assets		**1,651.5**	1,620.9	**3,489.2**	4,335.4
EQUITY					
Called up share capital	24, 27	**180.6**	182.6	**180.6**	182.6
Share premium account	24	**2.3**	2.3	**2.3**	2.3
Capital redemption reserve	24	**28.6**	26.5	**28.6**	26.5
Hedging Reserve	24	—	—	—	—
Fair value reserve	24	**0.1**	0.1	**—**	—
Translation reserve	24	**(2.1)**	1.4	**—**	—
Merger reserve	24	**310.8**	310.8	**2,123.2**	3,080.2
Retained earnings	24	**1,131.2**	1,096.1	**1,154.5**	1,043.8
Equity shareholders' funds		**1,651.5**	1,619.8	**3,489.2**	4,335.4
Equity minority interests		**—**	1.1	**—**	—
Total equity		**1,651.5**	1,620.9	**3,489.2**	4,335.4

The financial statements were approved by the board of directors on 17th May 2006 and are signed on its behalf by:

Richard Baker
Chief Executive

Jim Smart
Chief Financial Officer

Boots Group and parent company cash flow statements for the year ended 31st March 2006

	Notes	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Cash flows from operating activities					
Profit for the year		**1,773.7**	266.4	**844.7**	966.6
Less discontinued operations		**(67.2)**	(11.4)	**—**	—
Profit on sale of BHI		**(1,402.1)**	—	**(736.5)**	—
Profit for the year (continuing operations)		**304.4**	255.0	**108.2**	966.6
Adjustments for:					
Depreciation, amortisation, impairments and share scheme charges		**185.5**	156.1	**5.3**	4.6
(Profit)/loss on disposal of property, plant and equipment		**(171.1)**	6.6	**—**	—
Foreign exchange loss		**(0.4)**	(3.9)	**(3.2)**	(2.6)
Other non-cash movements (including provisions)		**(2.5)**	(2.0)	**946.7**	20.2
Finance expense/(income) (including dividends)		**20.3**	40.9	**(1,078.5)**	(1,065.1)
Income tax expense		**44.5**	105.0	**17.1**	15.1
Operating profit/(loss) before changes in working capital and provisions		**380.7**	557.7	**(4.4)**	(61.2)
Increase in trade and other receivables		**(27.5)**	(35.5)	**(510.0)**	(13.5)
Decrease/(increase) in inventories		**64.9**	(30.4)	**—**	—
Increase/(decrease) in trade and other payables		**23.2**	(43.4)	**(40.6)**	138.2
Increase in provisions and employee benefits		**59.5**	23.9	**—**	—
Cash generated from operations		**500.8**	472.3	**(555.0)**	63.5
Income taxes paid		**(68.5)**	(117.0)	**(21.0)**	(15.4)
Net cash from operating activities (continuing operations)		**432.3**	355.3	**(576.0)**	48.1
Cash flows from investing activities					
Acquisition of subsidiary	4	**—**	(5.0)	**(55.5)**	(805.0)
Acquisition of property, plant and equipment		**(181.1)**	(276.5)	**—**	—
Proceeds from sale of property, plant and equipment		**308.3**	10.1	**—**	—
Interest received		**21.1**	12.4	**289.2**	265.4
Dividends received from subsidiaries		**—**	—	**1,000.0**	1,000.0
Net cash used in investing activities (continuing operations)		**148.3**	(259.0)	**1,233.7**	460.4
Cash flows from financing activities					
Proceeds from the issue of share capital		**—**	2.1	**—**	2.1
Advance of borrowings		**0.8**	293.3	**20.1**	310.6
Interest paid		**(41.1)**	(33.6)	**(220.0)**	(201.1)
Payment of finance lease liabilities		**(11.7)**	(16.8)	**—**	—
(Purchase)/disposal of own shares		**(0.1)**	7.7	**(6.0)**	(6.3)
Repurchase of shares		**(50.0)**	(303.3)	**(50.0)**	(303.3)
Dividends paid		**(1,640.3)**	(225.1)	**(1,640.3)**	(225.1)
Repayment/(advance) of loans to subsidiaries		**—**	—	**291.4**	(168.3)
Net cash used in financing activities (continuing operations)		**(1,742.4)**	(275.7)	**(1,604.8)**	(591.4)
Net cash inflow from discontinued operations		**38.8**	25.3	**—**	—
Cash flows arising on the sale of businesses	3	**1,854.5**	(3.3)	**1,538.9**	—
Net increase/(decrease) in cash and cash equivalents		**731.5**	(157.4)	**591.8**	(82.9)
Cash and cash equivalents at 1st April		**79.7**	236.6	**(2.3)**	81.1
Effect of exchange rate fluctuations on cash held		**2.1**	0.5	**—**	(0.5)
Cash and cash equivalents at 31st March	17	**813.3**	79.7	**589.5**	(2.3)

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts repayable on demand. Analysis of net cash/(debt) is shown in note 21.

During the year ended 31st 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 £17.2m) and cash outflows from financing activities of £21.3m (2005 £2.3m).

Boots Group's significant accounting policies

Boots Group PLC is a public company incorporated in the United Kingdom. The address of its registered office is disclosed in the shareholder information section of the annual report. The principal activities of the company and its subsidiaries are described in note 2. The principal accounting policies applied in the preparation of these consolidated financial statements and the financial statements of the company are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated, and in preparing an opening IFRS balance sheet at 1st April 2004 for the purposes of transition to IFRSs.

The accounting policies have been applied consistently by group entities.

Basis of accounting

The financial statements prepared in pounds sterling rounded to the nearest £100,000 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs) for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRSs are given in note 34.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments which are stated at their fair value.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements.

The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in note 33.

A separate income statement for the company has not been presented as permitted by section 230 (4) of the Companies Act 1985.

Adopted IFRSs not yet applied

The following IFRS was available for early application but has not yet been applied by the group in these financial statements:

- IFRS 7 'Financial Instruments: Disclosure' applicable for years commencing on or after 1st January 2007

The application of IFRS 7 in the year to 31st March 2006 would not have affected the balance sheet or income statement as the standard is concerned with disclosure only. The group plans to adopt it in the year to 31st March 2008.

Early adoption

The group has applied IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' from 1st April 2004 and has elected to early adopt the option offered by the amendment to IAS 19 'Employee Benefits', allowing actuarial gains and losses to be taken directly to reserves via the statement of recognised income and expense.

Consolidation

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies so as to obtain benefits from their activities. Subsidiaries are fully consolidated from the date on which control is transferred until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group.

Inter-company transactions, balances and unrealised gains or losses on transactions between group companies are eliminated.

In the company balance sheet, investments in subsidiaries are stated at fair value at the date of acquisition less any dividends paid out of pre-acquisition profits and provisions for subsequent impairment. Where an impairment is charged in the income statement, an equal amount is transferred from the merger reserve.

Foreign currencies

Foreign currency transactions

Transactions in foreign currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date.

Foreign exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at foreign exchange rates ruling at the balance sheet date. The results and cash flows of overseas subsidiaries are translated into sterling on an average exchange rate basis, which approximates to the actual rate for the month.

Exchange differences arising from the translation of the results and net assets of overseas subsidiaries are recognised in the translation reserve.

When a foreign operation is sold, related exchange differences are recognised in the income statement as part of the gain or loss on sale.

The cost of the company investment in shares in overseas subsidiaries is stated at the rate of exchange in force at the date each investment was made.

Intangible assets

Goodwill

Goodwill on acquisitions comprises the excess of the fair value of the consideration plus any associated costs for investments in subsidiary undertakings over the fair value of the net identifiable assets acquired. Adjustments are made to fair values to bring the accounting policies of acquired businesses into alignment with those of the group. The costs of integrating and reorganising acquired businesses are charged to the post-acquisition income statement.

For acquisitions prior to 1st April 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP. Goodwill arising on acquisitions prior to 1st April 1998 has been set off against reserves.

Goodwill is carried at cost less accumulated impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Product rights and licences

Product rights and licences acquired are shown at historical cost less accumulated amortisation and impairment losses. Similar assets created within the business are only capitalised when commercially feasible, and the amounts are material, otherwise, expenditure is charged against profits in the year in which it is incurred.

Software costs

Costs that are directly associated with the production of identifiable and unique software products controlled by the group, are recognised as intangible assets. These intangibles are stated at cost less accumulated amortisation and impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the useful lives of the intangible assets unless such lives are indefinite. Intangible assets with an indefinite life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The useful lives are as follows:

- Product rights – up to 20 years;
- Licences – 20 years;
- Software costs – 3 to 8 years;
- Capitalised development costs – 3 to 5 years.

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

Property, plant and equipment

The group has adopted the transitional provisions of IFRS 1 to use previous revaluations as deemed cost at the transition date. From 1st April 2004, all property, plant and equipment will be accounted for under the cost method.

All property, plant and equipment is stated at cost less accumulated depreciation.

Depreciation of property, plant and equipment is provided to write off the cost, less residual value, by equal instalments over their expected useful economic lives as follows:

- Freehold land and assets in the course of construction – not depreciated;
- Freehold and long leasehold buildings – depreciated to their estimated residual values over their useful economic lives of not more than 50 years;
- Short leasehold properties – remaining period of lease when less than 50 years;
- Computer equipment – 3 to 8 years;
- Motor cars – 4 or 5 years;
- Other motor vehicles – 3 to 10 years;
- Fixtures and plant – 3 to 20 years.

Residual values, remaining useful economic lives and depreciation methods are reviewed annually and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Non-current assets held for sale and discontinued operations

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of fair value less costs to sell and carrying amount.

Impairment losses on initial classification as held for sale are included in the income statement. Gains or losses on subsequent re-measurements are also included in the income statement.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. The asset (disposal group) must be available for immediate sale and the sale must be highly probable within one year.

A discontinued operation is a component of the group's business that represents a separate major line of business or geographical area of operations that has been disposed of, has been abandoned or meets the criteria to be classified as held for sale.

Discontinued operations are presented on the income statement (including the comparative year) as a separate line 'profit from discontinued operations' and are shown net of tax.

Impairment of assets

The carrying amount of the group's assets is reviewed at each balance sheet date to determine whether there is an indication of impairment. If such an indication exists, the asset's recoverable amount is estimated.

For goodwill, intangible assets that have an indefinite life and intangible assets not yet available for use, the recoverable amount is estimated at each balance sheet date and when there is an indication that the asset is impaired.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Share based payment transactions

The fair value of the shares/options granted is charged as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the shares/options. The fair value is based on market value for the All Employee Share Ownership Plan (AESOP) and for the Long Term Bonus Scheme. The fair value of the options in the Executive Share Option Plan are established using an option pricing model. The amount recognised as an expense reflects the estimated number of shares/options that are expected to vest except where forfeiture is only due to market-based conditions not being achieved.

In accordance with the transitional provisions of IFRS 1, no expense is recorded in respect of grants made under the above schemes prior to 7th November 2002.

Cash and cash equivalents

Cash and cash equivalents comprises cash in hand and short term deposits. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. These are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Financial Instruments

Financial assets and liabilities are recognised on the balance sheet at fair value when the group/ company becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are stated at their amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts. They are recognised on the trade date of the related transactions.

Trade payables

Trade payables are stated at their amortised cost. They are recognised on the trade date of the related transactions.

Derivative financial instruments

The group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

In accordance with its treasury policy, the group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value, with movements on remeasurement recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

The fair value of interest rate swaps is the estimated amount that the group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the highly effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve.

When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If the hedged forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period, or periods, during which the asset acquired or liability assumed affects profit or loss.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

Fair value hedges

Where a derivative financial instrument hedges the changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (or an identified portion of such asset, liability or firm commitment), any gain or loss on the hedging instrument is recognised in the income statement. The hedged item is also stated at fair value in respect of the risk(s) being hedged, with any gain or loss recognised in the income statement.

Hedge of monetary assets and liabilities

Where a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

Hedge of net investment in foreign operation

On consolidation, the highly effective portion of the gain or loss on an instrument designated as a hedge of net investment in a foreign operation that is determined to be an effective hedge is recognised directly in the hedging reserve.

The ineffective portion is recognised immediately in the income statement.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs.

Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Net finance costs

Net finance costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses, interest on pension scheme liabilities net of expected return on assets, and gains and losses on hedging instruments that are recognised in the income statement.

Interest income is recognised in the income statement as it accrues, using the effective interest rate method.

The interest expense component of finance lease payments is recognised in the income statement to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligation.

Revenue

Revenue comprises sales and services to external customers (excluding VAT and other sales taxes). Consideration received from customers is only recorded as revenue when the group has completed full performance in respect of that consideration.

In respect of the Boots loyalty scheme, the Advantage Card, when points are issued to customers the retail value of those points expected to be redeemed is deferred. When the points are used by the customer they are recorded as revenue.

Sales of gift vouchers are only included in revenue when the vouchers are redeemed.

Inventories

Inventories are valued at the lower of cost and net realisable value and are based on the first-in-first-out principle. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels.

Pensions

The group operates a number of pension schemes under which contributions by employees and by the sponsoring companies are held in trust funds separated from the group's finances.

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the income statement as incurred.

The group's net obligation in respect of defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on AA rated bonds that have maturity dates approximating to the terms of the group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Scheme assets are valued at bid price.

Current and past service costs are recognised in operating profit and net financing costs include interest on pension scheme liabilities and expected return on assets.

All actuarial gains and losses that arise in calculating the group's obligation in respect of a scheme are recognised immediately in reserves and reported in the statement of recognised income and expense (SORIE).

Leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the income statement on a straight-line basis over the lease term.

Leases, for which the group assumes substantially all the risks and rewards of ownership, are classified as finance leases, including outsourced assets that are held exclusively for the use of the group. The cost of assets held under finance leases is included under property, plant and equipment and depreciation is provided in accordance with the policy for the class of asset concerned up to the length of the lease. The corresponding obligations under these leases are shown as liabilities. The finance charge element of rentals is charged to the income statement to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations. Lease premiums paid are treated as prepayments and are amortised over the period of the lease.

Income tax

Income tax on the profit or loss for the year represents the sum of the tax currently payable and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred taxation

Deferred tax is provided in full using the balance sheet liability method. It is the tax expected to be payable or recoverable on the temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

Provisions

Provisions are recognised in the balance sheet when there is a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Notes relating to the financial statements

1. Group reconciliation of changes in equity

For the year ended 31st March 2006	2006 £m	2005 £m
Total recognised income and expense for the year	**1,715.8**	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
Net increase/(decrease) in shareholders' funds	**30.6**	(230.7)
Opening shareholders' funds	**1,620.9**	1,851.6
Closing shareholders' funds	**1,651.5**	1,620.9

2. Segmental information

Segmental information is presented in respect of the group's business and geographical segments. The primary format, business segments, is based on the group's management and internal reporting structure. Inter-segment pricing is determined on an arm's length basis.

Business segments

The group comprises the following main business segments:

Boots The Chemists	Provision of pharmacy and dispensing services, sale of cosmetics, fragrance and toiletries and sale of baby, nutrition and photo products
Boots Opticians	Provision of opticians services and sale of glasses and contact lenses
Boots Healthcare International	Sale of brands such as Nurofen, Clearasil and Strepsils around the world
Boots Retail International	Markets a range of Boots beauty and personal care brands such as Nº 7, Botanics and Mediterranean around the world

Geographical segments

The Boots Healthcare International and Boots Retail International segments operate on a worldwide basis. The Boots The Chemists and Boots Opticians segments operate primarily in the UK.

Segment revenue is based on the geographical location of customers. Segment assets are based on geographical location of the assets.

(i) Revenue by business segment	Notes	Total 2006 £m	Total 2005 £m	Product revenues 2006 £m	Product revenues 2005 £m	Service revenues 2006 £m	Service revenues 2005 £m
Boots The Chemists		**4,732.0**	4,651.1	**4,729.9**	4,648.5	**2.1**	2.6
Boots Opticians		**174.3**	180.3	**152.5**	159.4	**21.8**	20.9
		4,906.3	4,831.4	**4,882.4**	4,807.9	**23.9**	23.5
Boots Retail International	a	**56.3**	46.4	**56.3**	46.4	**—**	—
Group and other	b	**64.8**	57.7	**62.4**	54.8	**2.4**	2.9
Continuing operations		**5,027.4**	4,935.5	**5,001.1**	4,909.1	**26.3**	26.4
Boots Healthcare International	c	**430.9**	494.2	**430.9**	494.2	**—**	—
Other discontinued operations	d	**12.9**	41.0	**12.9**	13.9	**—**	27.1
Total discontinued operations		**443.8**	535.2	**443.8**	508.1	**—**	27.1
Total revenue		**5,471.2**	5,470.7	**5,444.9**	5,417.2	**26.3**	53.5

2. Segmental information continued

[a] Boots Retail International also generated inter-segmental revenues of £1.6m (2005 £1.9m) to Boots The Chemists.
[b] Group and other includes Boots Manufacturing third party revenues of £60.1m (2005 £55.2m).
[c] Boots Healthcare International (the businesses sold to Reckitt Benckiser on 31st January 2006) also generated inter-segmental revenues of £26.1m (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).

(ii) Revenue by geographical segment	2006 £m	2005 £m
UK	**4,888.8**	4,867.0
Rest of Europe	**384.0**	396.6
Rest of World	**198.4**	207.1
Total revenue	**5,471.2**	5,470.7

Included in the UK is revenue of £93.2m (2005 £181.2m) from discontinued operations. In addition, inter-segmental revenues were generated of £138.0m (2005 £130.4m).

(iii) Group operating profit before finance costs 2006	BTC £m	BOL £m	BRI £m	Group and other £m	Total continuing £m	BHI £m	Other discontinued £m	Total discontinued £m	Total £m
Trading profit[1]	388.4	(3.5)	(1.8)	(47.2)	**335.9**	85.2	(0.3)	**84.9**	**420.8**
Profit/(loss) on sale of PPE[2]	—	(0.3)	(0.6)	8.4	**7.5**	(0.3)	—	**(0.3)**	**7.2**
Depreciation on disposal group assets[3]	—	—	—	—	**—**	5.2	—	**5.2**	**5.2**
Profit on sale and leaseback[4]	(13.6)	—	—	163.6	**150.0**	—	—	**—**	**150.0**
Supply chain reconfiguration[5]	(57.1)	—	—	3.0	**(54.1)**	—	—	**—**	**(54.1)**
IT infrastructure[6]	—	—	—	(37.1)	**(37.1)**	—	—	**—**	**(37.1)**
Store refurbishment costs[7]	(31.0)	(2.0)	—	—	**(33.0)**	—	—	**—**	**(33.0)**
Operating profit before finance costs	286.7	(5.8)	(2.4)	90.7	**369.2**	90.1	(0.3)	**89.8**	**459.0**

1 Trading profit is used 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.
2 Profit/(loss) on sale of property, plant and equipment (including the factory at Airdrie) and intangible fixed assets.
3 Depreciation added back due to BHI assets whilst held as disposal group assets.
4 Profit on sale and leaseback of 312 stores in July 2005.
5 Supply chain reconfiguration costs are those relating to the centralisation and automation programme announced on 14th March 2006.
6 Costs associated with fundamentally restructuring contractual arrangements with third-party providers.
7 Costs associated with the historical obligations under leases encompassed in the store investment programme announced on 14th March 2006.

2. Segmental information continued

Group operating profit before finance costs 2005	BTC £m	BOL £m	BRI £m	Group and other £m	**Total continuing £m**	BHI £m	Other dis-continued £m	**Total dis-continued £m**	**Total £m**
Trading profit	459.0	2.8	(8.1)	(46.2)	**407.5**	84.7	(6.5)	**78.2**	**485.7**
Loss on sale of PPE	—	—	—	(6.6)	**(6.6)**	—	—	**—**	**(6.6)**
Profit on sale of intangible fixed assets	—	—	—	—	**—**	7.3	—	**7.3**	**7.3**
Closure provision	—	—	—	—	**—**	—	(5.4)	**(5.4)**	**(5.4)**
Operating profit before finance costs	459.0	2.8	(8.1)	(52.8)	**400.9**	92.0	(11.9)	**80.1**	**481.0**

(iv) Assets by business segment	**2006 £m**	2005 £m
Boots The Chemists	**3,931.9**	3,745.7
Boots Opticians	**43.7**	49.8
	3,975.6	3,795.5
Boots Retail International	**80.7**	29.4
Group and other	**2,905.7**	3,208.4
Total assets — continuing operations	**6,962.0**	7,033.3
Boots Healthcare International	**—**	695.6
Other discontinued operations	**0.5**	1.1
Total assets — discontinued operations	**0.5**	696.7
Unallocated assets	**924.2**	206.6
Eliminations	**(4,455.6)**	(4,541.1)
Total assets	**3,431.1**	3,395.5

(v) Liabilities by business segment	**2006 £m**	2005 £m
Boots The Chemists	**(1,037.8)**	(918.3)
Boots Opticians	**(62.9)**	(160.6)
	(1,100.7)	(1,078.9)
Boots Retail International	**(175.4)**	(142.6)
Group and other	**(3,929.2)**	(3,745.9)
Total liabilities — continuing operations	**(5,205.3)**	(4,967.4)
Boots Healthcare International	**—**	(223.1)
Other discontinued operations	**(92.6)**	(92.8)
Total liabilities — discontinued operations	**(92.6)**	(315.9)
Unallocated liabilities	**(937.3)**	(1,032.4)
Eliminations	**4,455.6**	4,541.1
Total liabilities	**(1,779.6)**	(1,774.6)

Unallocated assets and liabilities include all taxation balances and net debt. Eliminations include inter-segmental current accounts and interest-bearing balances with subsidiary companies.

(vi) Assets by geographical segment	**2006 £m**	2005 £m
UK	**3,138.4**	2,450.2
Rest of Europe	**177.2**	556.8
Rest of World	**115.5**	388.5
Total assets	**3,431.1**	3,395.5

2. Segmental information continued

Included in the UK are assets of £nil (2005 £113.0m) from discontinued operations.

(vii) Capital expenditure by business segment	2006 £m	2005 £m
Boots The Chemists	**182.6**	275.8
Boots Opticians	**4.6**	6.0
	187.2	281.8
Boots Retail International	**4.7**	4.2
Group and other	**7.7**	9.9
Total capital expenditure — continuing operations	**199.6**	295.9
Boots Healthcare International (discontinued operations)	**10.7**	27.7
Total capital expenditure	**210.3**	323.6

(viii) Capital expenditure by geographical segment	2006 £m	2005 £m
UK	**197.3**	312.5
Rest of Europe	**8.5**	8.2
Rest of World	**4.5**	2.9
Total capital expenditure	**210.3**	323.6

Included in the UK is capital expenditure of £7.9m (2005 £24.1m) from discontinued operations.

(ix) Depreciation and amortisation by business segment	2006 £m	2005 £m
Boots The Chemists	**158.4**	133.5
Boots Opticians	**6.5**	8.0
	164.9	141.5
Boots Retail International	**2.4**	1.8
Group and other	**6.5**	7.7
Total — continuing operations	**173.8**	151.0
Boots Healthcare International (discontinued operations)	**—**	6.9
Total	**173.8**	157.9

(x) Depreciation and amortisation by geographical segment	2006 £m	2005 £m
UK	**162.4**	146.5
Rest of Europe	**8.7**	8.6
Rest of World	**2.7**	2.8
Total	**173.8**	157.9

(xi) Significant other non-cash expenses by business segment	2006 £m	2005 £m
Boots The Chemists	**4.1**	4.0
Boots Opticians	**0.4**	0.4
	4.5	4.4
Boots Retail International	**—**	—
Group and other	**0.6**	0.5
Total — continuing operations	**5.1**	4.9
Boots Healthcare International (discontinued operations)	**0.2**	0.2
Total	**5.3**	5.1

2. Segmental information continued

(xii) Significant other non-cash expenses by geographical segment

	2006 £m	2005 £m
UK	**5.3**	4.9
Rest of Europe	**—**	0.2
Rest of World	**—**	—
Total	**5.3**	5.1

Significant other non-cash expenses relate to share based payments.

3. Non-current assets held for sale and discontinued operations

Discontinued operations

The principal disposal in the year was the Boots Healthcare International business to Reckitt Benckiser (completed on 31st January 2006). The consideration was £1.9bn. The Portland Ceramics business was also disposed of in the year. In the prior year the Dentistry, LASIK, Chiropody and Laser Hair Removal businesses and the Handbag joint venture were also treated as discontinued operations.

The disposal of Boots Healthcare International was largely tax free due to the substantial shareholding exemption rules and the utilisation of capital losses previously not recognised for deferred tax purposes. The tax credit of £31.4m relates to tax relief due on the costs associated with the disposal.

The results of the discontinued operations are as follows:

	2006 £m	2005 £m
Revenue	**443.8**	535.2
Cost of sales	**(102.7)**	(142.2)
Gross profit	**341.1**	393.0
Selling, distribution and store costs	**(193.3)**	(232.3)
Administrative costs	**(54.6)**	(82.5)
Other operating expenses	**(3.7)**	(5.4)
Other operating income	**0.3**	7.3
Operating profit before finance costs	**89.8**	80.1
Financial income	**1.8**	1.9
Financial expenses	**(1.7)**	(2.8)
Net finance income/(costs)	**0.1**	(0.9)
Share of loss of joint ventures	**—**	(0.6)
Profit before taxation	**89.9**	78.6
Attributable income tax expense	**(22.7)**	(31.3)
Profit/(loss) on disposal of discontinued operations	**1,370.7**	(51.3)
Attributable tax credit	**31.4**	15.4
Profit for the year	**1,469.3**	11.4

3. Non-current assets held for sale and discontinued operations continued

Effect of the disposal of individual assets and liabilities of the group	2006 £m	2005 £m
Intangible fixed assets	**(294.4)**	—
Property, plant and equipment	**(49.3)**	(29.3)
Inventories	**(55.7)**	—
Trade receivables	**(146.1)**	—
Cash and cash equivalents (including overdrafts)	**40.2**	—
Trade payables	**128.6**	—
Income and deferred tax	**(16.8)**	—
Net identifiable assets	**(393.5)**	(29.3)
Related goodwill	**—**	(1.6)
Consideration received[1]	**1,877.6**	—
Disposal and other termination costs	**(125.7)**	(20.0)
Exchange gains recycled	**12.3**	—
Profit/(loss) on disposal of businesses	**1,370.7**	(50.9)
Loss on disposal of joint venture	**—**	(0.4)
Attributable tax credit	**31.4**	15.4
Profit/(loss) on disposal	**1,402.1**	(35.9)
Consideration received, satisfied in cash	**1,926.0**	0.3
Costs of disposal paid	**(71.5)**	(3.6)
Net cash inflow/(outflow)	**1,854.5**	(3.3)

[1] Consideration received is the cash consideration of £1,926.0m less an adjustment for net debt items in the disposal balance sheet of £48.4m

For the company, the cash inflow of £1,538.9m is the net proceeds received from the sale of BHI companies owned directly by Boots Group PLC.

Assets held for sale

Two properties with a net book value of £1.2m have been classified as held for sale in the 'Group and other' segment. It is expected that these properties will be sold within the next 12 months. No impairment in the carrying amount was made.

Assets classified as held for sale	2006 £m	2005 £m
Non-current assets held for sale:		
Property, plant and equipment	**1.2**	0.7

4. Acquisitions of businesses

There have been no acquisitions in the current year.

During the prior year, Boots The Chemists acquired a number of pharmacy businesses for £4.7m. All businesses acquired have been accounted for using the acquisition method of accounting. None of these were individually significant and they are therefore not shown separately.

These acquisitions have the following effect on the group's assets and liabilities:

	2006 £m	2005 £m
Intangible fixed assets	–	4.5
Inventories	–	0.4
Receivables	–	0.9
Borrowings	–	(0.3)
Payables	–	(0.8)
Net assets	–	4.7
Consideration paid (cash)	–	(4.7)
Goodwill	–	–

There were no significant fair value adjustments in respect of these acquisitions.

Net cash outflow from acquisitions	**2006 £m**	2005 £m
Acquisition of businesses	–	(4.7)
Cash balances acquired with businesses	–	(0.3)
Investment in joint ventures	–	(0.7)
Net cash outflow	–	(5.7)
Continuing operations	–	(5.0)
Discontinued operations	–	(0.7)
Net cash outflow	–	(5.7)

5. Expenses in operating profit

	2006 £m	2005 £m
Total profit for the year is after charging:		
Research and development costs	**16.1**	22.6
Exchange gains	**2.0**	0.1
Auditors' remuneration, including £0.2m (2005 £0.2m) for the company	**0.7**	1.0

The group auditors and their associates also received £1.0m (2005 £0.8m) in respect of non-audit services in the UK. This represents 6% of consultancy and professional services costs of the group for 2006. £0.7m was charged in trading profit for the year and the remaining £0.3m is capitalised on the balance sheet.

This included:

- Further assurance services of £0.4m (2005 £0.1m) that primarily relates to work for the BHI disposal;
- Tax services of £0.4m (2005 £0.3m) with £0.1m (2005 £0.1m) relating to compliance work, the balance being advisory;
- Other services of £0.2m (2005 £0.4m).

These latter arrangements are covered by written agreements to ensure the objectivity and independence of the auditor is not compromised.

6. Other operating income/expenses

	2006 £m	2005 £m
Other operating income		
Profit on disposal of fixed assets	**8.7**	4.9
Profit on sale and leaseback	**150.0**	—
Other	**1.4**	—
	160.1	4.9
Other operating expenses		
Loss on disposal of fixed assets	**(6.7)**	(11.5)
Supply chain reconfiguration	**(54.1)**	—
IT infrastructure	**(37.1)**	—
Other	**(1.6)**	—
	(99.5)	(11.5)

Details of the above are given in note 2.

7. Net finance costs

	Notes	2006 Financing interest £m	2006 Pension interest £m	2006 Total £m	2005 Financing interest £m	2005 Pension interest £m	2005 Total £m
Interest payable and similar charges:							
Bank loans and overdrafts		**(6.7)**	**—**	**(6.7)**	(8.0)	—	(8.0)
Other loans	a	**(29.9)**	**—**	**(29.9)**	(24.3)	—	(24.3)
Finance lease charges		**(3.8)**	**—**	**(3.8)**	(2.9)	—	(2.9)
Interest on pension scheme liabilities		**—**	**(166.7)**	**(166.7)**	—	(159.0)	(159.0)
		(40.4)	**(166.7)**	**(207.1)**	(35.2)	(159.0)	(194.2)
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
		23.5	**163.3**	**186.8**	11.3	142.0	153.3
Net finance costs		**(16.9)**	**(3.4)**	**(20.3)**	(23.9)	(17.0)	(40.9)

a Included in other loans is interest payable on the £300m eurobond of £16.5m (2005 £16.5m) and €300m eurobond of £5.3m (2005 £2.4m).

8. Income tax expense

Recognised in the income statement	Continuing 2006 £m	Continuing 2005 £m	Discontinued 2006 £m	Discontinued 2005 £m
Current tax:				
UK corporation tax at 30.0% (2005 30.0%)	**68.0**	115.8	**(2.8)**	(8.3)
Adjustments in respect of prior periods	**(9.8)**	(10.0)	**1.4**	(1.1)
	58.2	105.8	**(1.4)**	(9.4)
Relief for overseas taxation	**(0.2)**	(0.1)	**—**	(1.0)
	58.0	105.7	**(1.4)**	(10.4)
Overseas taxation	**5.4**	2.5	**1.8**	26.6
Total current tax expense	**63.4**	108.2	**0.4**	16.2
Deferred taxation (see note 18):				
Origination and reversal of timing differences	**(18.9)**	(3.2)	**(9.1)**	(0.3)
Total income tax expense/(credit) in income statement	**44.5**	105.0	**(8.7)**	15.9

8. Income tax expense continued

The aggregate of current and deferred tax relating to items credited directly to equity was £23.1m (2005 charged £6.0m).

The tax charge for continuing operations is lower (2005 lower) than the standard rate in the UK (30%) because the profit arising on the sale and leaseback transaction was tax free due to the utilisation of capital losses previously unrecognised in deferred tax and due to the release of a deferred tax liability of £10.2m relating to revalued property which, following the sale and leaseback transaction, was no longer required. A full explanation of the differences is shown below:

Reconciliation of effective tax rate	Continuing 2006 £m	Continuing 2005 £m	Discontinued 2006 £m	Discontinued 2005 £m
Profit before taxation	**348.9**	360.0	**1,460.6**	27.3
Income tax at UK standard rate of corporation tax of 30.0%	**104.7**	108.0	**438.2**	8.2
Factors affecting charge for the year:				
Non-taxable income	**(5.9)**	(6.6)	**—**	—
Depreciation on non-qualifying fixed assets	**7.5**	6.5	**0.3**	0.3
Net other expenses/(income) not deductible for tax purposes	**8.0**	(6.9)	**2.4**	3.0
(Profit)/loss on disposal of non-qualifying assets	**(44.9)**	—	**1.2**	—
Other movements in deferred tax	**(9.4)**	—	**(2.3)**	—
Non-taxable disposal for discontinued operations	**—**	—	**(445.2)**	—
Credit for overseas taxation	**—**	(0.7)	**—**	(1.0)
Foreign tax charged at lower rates than UK standard rate	**(2.6)**	0.3	**(0.4)**	4.5
Movements on unprovided deferred tax in respect of losses	**(0.3)**	6.7	**(1.3)**	4.5
Prior year deferred tax adjustments	**(3.4)**	7.7	**(3.2)**	(8.6)
Prior year corporation tax adjustments	**(9.2)**	(10.0)	**1.6**	5.0
Total income tax expense/(credit) in income statement	**44.5**	105.0	**(8.7)**	15.9

9. Tax assets and liabilities

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Current tax assets	**13.5**	11.5	**12.2**	9.4
Current tax liabilities	**(56.2)**	(95.1)	**—**	—
Non-current tax liabilities	**(0.3)**	(0.6)	**—**	—

10. Profit for the year attributable to equity shareholders

The company has not presented its own profit and loss account as permitted by section 230 (4) of the Companies Act 1985.

Of the profit attributable to equity shareholders, £844.7m (2005 £966.6m) is dealt with in the financial statements of the company.

The transition from UK GAAP to IFRS increased 'profit for the year' for the year ended 31st March 2005 by £1.3m.

11. Earnings per share

	2006	2005
Basic earnings per share — total	**259.2p**	35.9p
Diluted earnings per share — total	**258.9p**	35.9p
Basic earnings per share — continuing	**44.5p**	34.4p
Diluted earnings per share — continuing	**44.4p**	34.4p
Basic earnings per share — discontinued	**214.7p**	1.5p
Diluted earnings per share — discontinued	**214.5p**	1.5p
Basic earnings per share — continuing trading profit	**33.9p**	35.1p
Diluted earnings per share — continuing trading profit	**33.9p**	35.1p

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

Earnings	**2006 £m**	2005 £m
Earnings for basic and diluted earnings per share calculation — total	**1,773.7**	265.9
Earnings for basic and diluted earnings per share calculation — continuing	**304.4**	255.0
Earnings for basic and diluted earnings per share calculation — discontinued	**1,469.3**	10.9
Earnings for basic and diluted earnings per share calculation — continuing trading profit	**232.1**	259.8

Reconciliation of trading profit	**2006 £m**	2005 £m
Continuing trading profit used in earnings per share calculation	**232.1**	259.8
Add finance costs	**20.3**	40.9
Add income tax expense	**44.5**	105.0
Add tax on other operating items/finance costs	**39.0**	1.8
Continuing trading profit (see note 2)	**335.9**	407.5

Number of shares	**2006 m**	2005 m
Weighted average number of shares used in basic earnings per share calculation	**684.2**	739.8
Dilutive effect of options	**0.9**	1.1
Weighted average number of shares used in diluted earnings per share calculation	**685.1**	740.9

The weighted average number of shares used in basic earnings per share calculation excludes 9.1m (2005 10.4m) 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.

12. Intangible fixed assets

Group	Goodwill £m	Product rights and licences £m	Software £m	Total £m
Cost				
At 1st April 2004	2.5	317.2	124.7	444.4
Acquisitions through business combinations	—	4.5	—	4.5
Other acquisitions	—	0.8	84.4	85.2
Disposals	—	(3.6)	(2.3)	(5.9)
Effect of movements in foreign exchange	—	2.0	—	2.0
At 31st March 2005	2.5	320.9	206.8	530.2
At 1st April 2005	2.5	320.9	206.8	530.2
Other acquisitions	—	0.3	43.3	43.6
Disposals	(0.7)	(289.9)	(56.2)	(346.8)
Effect of movements in foreign exchange	—	3.1	—	3.1
At 31st March 2006	**1.8**	**34.4**	**193.9**	**230.1**

12. Intangible fixed assets continued

Group	Goodwill £m	Product rights and licences £m	Software £m	Total £m
Amortisation and impairment losses				
At 1st April 2004	0.5	37.7	32.3	70.5
Amortisation for the year	—	3.7	16.8	20.5
Impairment charge	1.6	—	—	1.6
Disposals	—	(3.6)	(1.1)	(4.7)
Effect of movements in foreign exchange	—	0.1	—	0.1
At 31st March 2005	2.1	37.9	48.0	88.0
At 1st April 2005	2.1	37.9	48.0	88.0
Amortisation for the year	—	1.6	25.0	26.6
Impairment charge	—	0.2	1.3	1.5
Disposals	(0.3)	(28.9)	(3.7)	(32.9)
Effect of movements in foreign exchange	—	0.1	—	0.1
At 31st March 2006	**1.8**	**10.9**	**70.6**	**83.3**
Carrying amounts				
At 1st April 2004	2.0	279.5	92.4	373.9
At 31st March 2005	0.4	283.0	158.8	442.2
At 31st March 2006	**—**	**23.5**	**123.3**	**146.8**

Amortisation and impairment charge

The impairment charge is recognised in administrative costs within the income statement. Impairment losses of £1.3m relate to the 'Boots Retail International' segment, and £0.2m relate to the 'Boots Healthcare International' segment.

The amortisation charge is recognised in the following line items in the income statement:

	2006 £m	2005 £m
Cost of sales	**0.4**	—
Distribution costs	**8.4**	2.7
Administrative costs	**17.8**	17.8
Total	**26.6**	20.5

There are £30.9m (2005 £28.0m) of intangible assets at cost which have been fully amortised and which are still in use.

Impairment tests for cash-generating units containing intangibles with indefinite useful lives

The following units had significant carrying amounts of intangibles with indefinite useful lives:

	2006 £m	2005 £m
Boots Healthcare USA	**—**	74.9
Boots Healthcare Deutschland	**—**	150.6
Boots Healthcare Japan	**—**	23.2
	—	248.7

13. Property, plant and equipment

Group	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost				
At 1st April 2004	660.5	389.0	1,249.1	2,298.6
Acquisitions	3.1	19.0	211.8	233.9
Transfer to non-current assets held for sale	(0.9)	—	—	(0.9)
Disposals	(5.4)	(27.0)	(72.8)	(105.2)
Reclassifications	(0.7)	(103.6)	104.3	—
Effect of movements in foreign exchange	0.6	0.6	0.9	2.1
At 31st March 2005	657.2	278.0	1,493.3	2,428.5
At 1st April 2005	657.2	278.0	1,493.3	2,428.5
Acquisitions	4.1	27.1	135.5	166.7
Transfer to non-current assets held for sale	(0.5)	—	—	(0.5)
Disposals	(143.2)	(88.9)	(36.4)	(268.5)
Reclassifications	0.7	(0.5)	(0.2)	—
Effect of movements in foreign exchange	0.6	0.3	0.6	1.5
At 31st March 2006	**518.9**	**216.0**	**1,592.8**	**2,327.7**
Depreciation and impairment losses				
At 1st April 2004	51.3	238.5	603.9	893.7
Depreciation charge for the year	6.0	19.2	112.2	137.4
Transfer to non-current assets held for sale	(0.2)	—	—	(0.2)
Disposals	(2.2)	(15.9)	(37.6)	(55.7)
Reclassifications	—	(75.3)	75.3	—
Effect of movements in foreign exchange	0.1	0.3	0.5	0.9
At 31st March 2005	55.0	166.8	754.3	976.1
At 1st April 2005	55.0	166.8	754.3	976.1
Depreciation charge for the year	5.3	12.5	129.4	147.2
Impairment losses	1.3	14.3	0.8	16.4
Disposals	(8.6)	(59.8)	(12.3)	(80.7)
Effect of movements in foreign exchange	0.3	0.2	0.3	0.8
At 31st March 2006	**53.3**	**134.0**	**872.5**	**1,059.8**
Carrying amounts				
At 1st April 2004	609.2	150.5	645.2	1,404.9
At 31st March 2005	602.2	111.2	739.0	1,452.4
At 31st March 2006	**465.6**	**82.0**	**720.3**	**1,267.9**

Group	**2006 £m**	2005 £m
Net book value of land and buildings comprises:		
Freehold	**386.5**	518.5
Long leasehold (more than 50 years unexpired)	**79.1**	83.7
	465.6	602.2

The cost of plant and machinery includes £20.4m (2005 £19.3m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £5.9m (2005 £10.2m) and for which the depreciation charge for the year was £4.1m (2005 £2.8m).

The cost of fixtures and fittings includes £88.4m (2005 £62.8m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £32.1m (2005 £15.5m) and for which the depreciation charge in the year was £17.5m (2005 £11.5m).

Property, plant and equipment includes payments on account and assets in the course of construction of £4.4m (2005 £27.3m).

13. Property, plant and equipment continued

Disposals include assets with a net book value of £49.3m (2005 £29.3m) associated with the disposal of businesses.

The disposal of BHI resulted in the impairment of plant and machinery used by Boots Manufacturing.

The impairment charge is recognised in the following line items in the income statement:

	2006 £m	2005 £m
Distribution costs	**0.8**	—
Administrative costs	**4.8**	—
Profit on disposal of discontinued operations	**10.8**	—
	16.4	—

£0.8m charge is within the Boots The Chemists segment and £15.6m in the group and other segment.

The carrying amount of temporarily idle property, plant and equipment was £nil (2005 £0.2m).

The carrying amount of property, plant and equipment that is not in use but not classified as held for resale was £nil (2005 £0.2m).

The cost of fully depreciated property, plant and equipment that is still in use is £398.7m (2005 £400.8m).

14. Fixed asset investments

Company	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost			
At 1st April 2004	3,230.3	897.7	4,128.0
Currency adjustments	—	5.8	5.8
Additions	805.0	455.3	1,260.3
Disposals	—	(250.0)	(250.0)
At 31st March 2005	4,035.3	1,108.8	5,144.1
At 1st April 2005	4,035.3	1,108.8	5,144.1
Currency adjustments	—	3.2	3.2
Additions	65.0	44.6	109.6
Disposals	(805.0)	(440.2)	(1,245.2)
At 31st March 2006	**3,295.3**	**716.4**	**4,011.7**
Provision			
At 1st April 2004	—	—	—
Movements	—	19.2	19.2
At 31st March 2005	—	19.2	19.2
At 1st April 2005	—	19.2	19.2
Movements	957.0	(10.3)	946.7
At 31st March 2006	**957.0**	**8.9**	**965.9**
Carrying value			
At 1st April 2004	3,230.3	897.7	4,128.0
At 31st March 2005	4,035.3	1,089.6	5,124.9
At 31st March 2006	**2,338.3**	**707.5**	**3,045.8**

The principal subsidiary undertakings are listed on page 137 of this Part VII.

15. Inventories

	Group 2006 £m	Group 2005 £m
Manufacturing		
Raw materials	**17.0**	26.8
Work in progress	**11.5**	11.6
Finished goods	**27.5**	91.4
	56.0	129.8
Retailing	**538.4**	583.8
	594.4	713.6
Included in the above are:		
Inventories held at net realisable value	**25.9**	34.8

During the year, £26.4m (2005 £35.0m) of inventories were written down as an expense in the income statement and £2.6m (2005 £1.4m) of inventory write-downs in previous years were reversed as a result of the disposal of the inventory.

16. Trade and other receivables

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Non-current				
Other receivables	**32.7**	58.6	**0.4**	—
Derivative financial instruments	**1.7**	—	**—**	—
	34.4	58.6	**0.4**	—
Current				
Trade receivables	**346.5**	413.8	**—**	—
Owed by subsidiary undertakings	**—**	—	**1,215.4**	710.9
Other receivables	**14.9**	21.3	**4.2**	—
Prepayments and accrued income	**99.9**	85.8	**10.8**	1.1
Derivative financial instruments	**0.7**	1.3	**0.7**	—
	462.0	522.2	**1,231.1**	712.0

17. Cash and cash equivalents

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Bank balances	**82.5**	109.4	**0.8**	27.7
Short term deposits	**773.5**	19.3	**773.2**	—
Cash and cash equivalents	**856.0**	128.7	**774.0**	27.7
Bank overdrafts	**(42.7)**	(49.0)	**(184.5)**	(30.0)
Cash and cash equivalents in the cash flow statement	**813.3**	79.7	**589.5**	(2.3)

18. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities have been offset where they relate to the same fiscal jurisdiction and when there is also a legally enforceable right to offset the associated current tax assets and liabilities. Deferred tax assets and liabilities are attributable to the following after offset:

Group	Assets		Liabilities		Net	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Accelerated capital allowances	**—**	—	**(77.1)**	(87.9)	**(77.1)**	(87.9)
Employee benefits	**16.9**	26.3	**—**	(17.3)	**16.9**	9.0
Leases	**3.8**	4.3	**—**	—	**3.8**	4.3
Intangible assets	**—**	28.8	**—**	(14.9)	**—**	13.9
Site fees	**—**	0.7	**—**	—	**—**	0.7
Assets previously revalued	**—**	—	**(14.8)**	(26.4)	**(14.8)**	(26.4)
Business combinations	**—**	—	**(2.7)**	(3.4)	**(2.7)**	(3.4)
Financial instruments	**1.4**	0.4	**(1.9)**	(1.7)	**(0.5)**	(1.3)
Rolled over gains	**—**	—	**—**	—	**—**	—
Other temporary differences	**32.6**	4.9	**—**	15.0	**32.6**	19.9
Net tax assets/(liabilities)	**54.7**	65.4	**(96.5)**	(136.6)	**(41.8)**	(71.2)

No deferred tax is provided on unremitted earnings of overseas subsidiaries except where the earnings are expected to be remitted in the foreseeable future, or where the group does not control the timing of the remittance of such earnings.

Company	Assets		Liabilities		Net	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Financial instruments	**1.4**	0.4	**—**	(0.4)	**1.4**	—
Net tax assets/(liabilities)	**1.4**	0.4	**—**	(0.4)	**1.4**	—

The movement in the net deferred tax balance is as follows:

	Group 2006 £m	Group 2005 £m	**Company 2006 £m**	Company 2005 £m
At 1st April	**(71.2)**	(68.5)	**—**	—
Exchange differences	**(0.2)**	(0.2)	**—**	—
Income statement credit — continuing	**18.9**	3.2	**1.4**	—
Income statement credit — discontinued	**9.1**	0.3	**—**	—
Credited/(charged) to equity	**23.1**	(6.0)	**—**	—
Disposed of with business	**(21.5)**	—	**—**	—
At 31st March	**(41.8)**	(71.2)	**1.4**	—

Unrecognised deferred tax assets and liabilities

The group has only recognised a deferred tax asset on deductible temporary differences, unused tax losses or tax credits that are likely to be utilised in the next five years. The provisions are after reviewing the financial forecasts of the group's position, depreciation and potential capital expenditure for capital allowances. Where it is not considered probable that taxable profit will arise against which the temporary difference can be utilised, no asset has been recognised. Unprovided deferred tax on trading losses net of amortisation is £11.2m (2005 £15.1m) and on capital losses is £44.9m (2005 £160.2m).

The group obtained a current tax benefit of £115.4m (2005 £2.3m) from the utilisation of capital losses and a current tax benefit of £2.2m (2005 £2.1m) from utilisation of trading losses on which no deferred tax asset was recognised at prior year ends.

18. Deferred tax assets and liabilities continued

Movement in deferred tax assets and liabilities during the year (before offsetting)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances in the same fiscal jurisdiction, is as follows:

Deferred tax assets	Accelerated capital allowances £m	Employee benefits £m	Leases £m	Intangible assets £m	Site fees £m	Assets previously revalued £m	Business combinations £m	Financial instruments £m	Rolled over gains £m	Other temporary differences £m	Total £m
At 1st April 2004	—	18.6	4.1	25.4	1.2	6.3	—	0.5	47.7	20.6	124.4
Income statement credit/(charge)	—	12.5	0.2	3.4	(0.5)	(0.7)	—	(0.1)	—	(0.7)	14.1
Charged to equity	—	(4.8)	—	—	—	—	—	—	—	—	(4.8)
At 31st March 2005	—	26.3	4.3	28.8	0.7	5.6	—	0.4	47.7	19.9	133.7
At 1st April 2005	—	26.3	4.3	28.8	0.7	5.6	—	0.4	47.7	19.9	133.7
Disposal of business	—	(3.5)	(0.2)	(26.3)	—	—	—	—	(0.1)	(15.8)	(45.9)
Income statement (charge)/credit	—	(29.0)	(0.3)	(2.5)	(0.7)	(0.7)	—	1.0	(10.8)	28.5	(14.5)
Credited to equity	—	23.1	—	—	—	—	—	—	—	—	23.1
At 31st March 2006	**—**	**16.9**	**3.8**	**—**	**—**	**4.9**	**—**	**1.4**	**36.8**	**32.6**	**96.4**

Deferred tax liabilities	Accelerated capital allowances £m	Employee benefits £m	Leases £m	Intangible assets £m	Site fees £m	Assets previously revalued £m	Business combinations £m	Financial instruments £m	Rolled over gains £m	Other temporary differences £m	Total £m
At 1st April 2004	(78.5)	(17.0)	—	(10.8)	—	(32.7)	(3.6)	(2.6)	(47.7)	—	(192.9)
Exchange differences	(0.2)	—	—	—	—	—	—	—	—	—	(0.2)
Income statement (charge)/credit	(9.2)	(0.3)	—	(2.9)	—	0.7	0.2	0.9	—	—	(10.6)
Charged to equity	—	—	—	(1.2)	—	—	—	—	—	—	(1.2)
At 31st March 2005	(87.9)	(17.3)	—	(14.9)	—	(32.0)	(3.4)	(1.7)	(47.7)	—	(204.9)
At 1st April 2005	(87.9)	(17.3)	—	(14.9)	—	(32.0)	(3.4)	(1.7)	(47.7)	—	(204.9)
Exchange differences	(0.1)	—	—	(0.1)	—	—	—	—	—	—	(0.2)
Disposal of business	2.9	—	—	18.0	—	—	—	—	3.5	—	24.4
Income statement credit/(charge)	8.0	17.3	—	(3.0)	—	12.3	0.7	(0.2)	7.4	—	42.5
At 31st March 2006	**(77.1)**	**—**	**—**	**—**	**—**	**(19.7)**	**(2.7)**	**(1.9)**	**(36.8)**	**—**	**(138.2)**
Total net deferred tax at 31st March 2006	**(77.1)**	**16.9**	**3.8**	**—**	**—**	**(14.8)**	**(2.7)**	**(0.5)**	**—**	**32.6**	**(41.8)**

The deferred tax assets provided in respect of assets previously revalued and rolled over gains relate to capital losses.

19. Trade and other payables

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Non-current				
Other payables	**29.7**	50.9	**—**	—
Derivative financial instruments	**0.3**	—	**0.3**	0.5
	30.0	50.9	**0.3**	0.5
Current				
Trade payables	**320.9**	364.4	**—**	—
Due to subsidiary undertakings	**—**	—	**727.5**	874.0
Taxation and social security	**26.2**	29.1	**2.3**	0.1
Other payables	**78.4**	58.8	**7.4**	0.2
Accruals and deferred income	**207.3**	206.1	**16.0**	15.9
Derivative financial instruments	**0.3**	0.5	**0.3**	—
	633.1	658.9	**753.5**	890.2

20. Financial liabilities — borrowings

Outlined below is information regarding the contractual terms of the group's borrowings. Further information on the group's exposure to interest rate and foreign currency risk is provided in note 22.

The carrying amount of financial assets/liabilities is as follows:

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Non-current liabilities				
5.5% Eurobond 2009	**(301.7)**	(301.3)	**(303.3)**	(305.8)
€300m floating Eurobond 2007	**(207.3)**	(206.1)	**(207.3)**	(206.1)
Medium term notes	**(20.5)**	(25.8)	**(20.5)**	(25.8)
Finance lease liabilities	**(45.3)**	(38.1)	**—**	—
Bank loans	**(0.1)**	(15.8)	**—**	—
	(574.9)	(587.1)	**(531.1)**	(537.7)
Current liabilities				
Bank overdrafts repayable on demand	**(42.7)**	(49.0)	**(184.5)**	(30.0)
Medium term notes	**(4.8)**	—	**(4.8)**	—
Current proportion of finance lease liabilities	**(19.8)**	(15.5)	**—**	—
Bank loans	**(115.8)**	(119.3)	**(101.5)**	(80.2)
	(183.1)	(183.8)	**(290.8)**	(110.2)
Total borrowings	**(758.0)**	(770.9)	**(821.9)**	(647.9)
Cash and cash equivalents	**856.0**	128.7	**774.0**	27.7
Available for sale assets	**0.2**	0.2	**—**	—
Total borrowings net of cash and cash equivalents	**98.2**	(642.0)	**(47.9)**	(620.2)
Trade payables	**(320.9)**	(364.4)	**—**	—
Trade receivables	**346.5**	413.8	**—**	—
Derivative financial instruments — liabilities	**(0.6)**	(0.5)	**(0.6)**	(0.5)
Derivative financial instruments — assets	**2.4**	1.3	**0.7**	—
Loans to subsidiary undertakings	—	—	**707.5**	1,089.6
Owed by subsidiary undertakings	—	—	**1,215.4**	710.9
Due to subsidiary undertakings	—	—	**(727.5)**	(874.0)
Total financial assets/(liabilities)	**125.6**	(591.8)	**1,147.6**	305.8

Bank overdrafts are repayable on demand.

20. Financial liabilities — borrowings continued

The group and company have two principal bonds:

1. A bond of £300m (2005 £300m) which was transferred from The Boots Company PLC to the new holding company, Boots Group PLC, on 20th January 2003 at its market value on that date of £308.8m. For the group, the bond carries a fixed interest rate of 5.5% (2005 5.5%) per annum, and is due for repayment on 26th May 2009. The group has an interest rate swap agreement to convert £150m (2005 £150m) of the liability to a floating rate (see note 22). For the company, the bond is held on the balance sheet at amortised cost.
2. A bond of €300m (2005 €300m) was taken out on 19th October 2004 and is due for repayment on 19th October 2007. The bond carries a floating interest rate of three month LIBOR plus 0.35% margin.

Bank loans include £15.7m (2005 £35.0m) that relate to the factoring of certain rental commitments over a ten year period up to March 2007.

At 31st March 2006, the group had available £600.0m (2005 £520.0m) of undrawn committed borrowing facilities.

Maturity profile of financial liabilities before the impact of derivative financial instruments (group)

Terms and debt repayment schedule 2006	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	> 5 years £m
Fixed							
Eurobond 2009	(301.7)	—	—	—	(301.7)	—	—
Medium term notes	(8.7)	(4.8)	—	(3.9)	—	—	—
Finance lease liabilities	(65.1)	(19.8)	(17.5)	(13.6)	(7.9)	(2.4)	(3.9)
Bank loans	(15.7)	(15.7)	—	—	—	—	—
Floating							
€300m Eurobond 2007	(207.3)	—	(207.3)	—	—	—	—
Medium term notes	(16.7)	—	(6.9)	(9.8)	—	—	—
Bank loans	(100.0)	(100.0)	—	—	—	—	—
Bank overdrafts	(42.7)	(42.7)	—	—	—	—	—
Zero interest							
Other loans	(0.1)	(0.1)	—	—	—	—	—
Total borrowings	(758.0)	(183.1)	(231.7)	(27.3)	(309.6)	(2.4)	(3.9)
Trade payables	(320.9)	(320.9)	—	—	—	—	—
Derivative financial instruments — liabilities	(0.6)	(0.3)	0.2	(0.5)	—	—	—
Total financial liabilities	**(1,079.5)**	**(504.3)**	**(231.5)**	**(27.8)**	**(309.6)**	**(2.4)**	**(3.9)**

Terms and debt repayment schedule 2005	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m
Fixed						
Eurobond 2009	(301.3)	—	—	—	—	(301.3)
Medium term notes	(9.0)	—	(5.0)	—	(4.0)	—
Finance lease liabilities	(53.6)	(15.5)	(14.6)	(11.9)	(9.0)	(2.6)
Bank loans	(35.0)	(19.2)	(15.8)	—	—	—
Floating						
€300m Eurobond 2007	(206.1)	—	—	(206.1)	—	—
Medium term notes	(16.8)	—	—	(6.9)	(9.9)	—
Bank overdrafts	(49.0)	(49.0)	—	—	—	—
Bank loans	(99.5)	(99.5)	—	—	—	—
Zero interest						
Other loans	(0.6)	(0.6)	—	—	—	—
Total borrowings	(770.9)	(183.8)	(35.4)	(224.9)	(22.9)	(303.9)
Trade payables	(364.4)	(364.4)	—	—	—	—
Derivative financial instruments — liabilities	(0.5)	—	(0.2)	—	(0.3)	—
Total financial liabilities	**(1,135.8)**	**(548.2)**	**(35.6)**	**(224.9)**	**(23.2)**	**(303.9)**

At 31st March 2005, the group had no borrowings with a maturity greater than five years.

20. Financial liabilities — borrowings continued

Currency profile (group)

The analysis of financial assets and liabilities by currency (before the effect of currency hedging) is as follows:

2006	Total £m	Sterling £m	Euros £m	US Dollars £m	Other £m
Cash and cash equivalents	856.0	841.0	4.7	1.0	9.3
Available for sale assets	0.2	0.2	—	—	—
Total cash and cash equivalents	856.2	841.2	4.7	1.0	9.3
Bank overdrafts	(42.7)	(38.4)	(4.0)	(0.3)	—
Bonds	(509.0)	(301.7)	(207.3)	—	—
Medium term notes	(25.4)	—	(6.9)	—	(18.5)
Bank loans	(115.8)	(115.7)	(0.1)	—	—
Finance lease liabilities	(65.1)	(65.1)	—	—	—
Total borrowings	(758.0)	(520.9)	(218.3)	(0.3)	(18.5)
Trade payables	(320.9)	(309.5)	(8.5)	(0.2)	(2.7)
Trade receivables	346.5	332.0	8.5	1.2	4.8
Derivative financial instruments					
— assets	2.4	2.4	—	—	—
— liabilities	(0.6)	(0.6)	—	—	—
Net financial assets/(liabilities)	**125.6**	**344.6**	**(213.6)**	**1.7**	**(7.1)**

2005	Total £m	Sterling £m	Euros £m	US Dollars £m	Other £m
Cash and cash equivalents	128.7	41.7	35.1	—	51.9
Available for sale assets	0.2	0.2	—	—	—
Total cash and cash equivalents	128.9	41.9	35.1	—	51.9
Bank overdrafts	(49.0)	(45.7)	(3.3)	—	—
Short term borrowings	(80.0)	(80.0)	—	—	—
Bonds	(507.4)	(301.3)	(206.1)	—	—
Medium term notes	(25.8)	—	(6.9)	—	(18.9)
Bank loans	(55.1)	(35.0)	(0.1)	—	(20.0)
Finance lease liabilities	(53.6)	(53.6)	—	—	—
Total borrowings	(770.9)	(515.6)	(216.4)	—	(38.9)
Trade payables	(364.4)	(354.2)	(7.6)	(0.1)	(2.5)
Trade receivables	413.8	403.7	6.7	1.0	2.4
Derivative financial instruments					
— assets	1.3	1.3	—	—	—
— liabilities	(0.5)	(0.5)	—	—	—
Net financial (liabilities)/assets	**(591.8)**	**(423.4)**	**(182.2)**	**0.9**	**12.9**

Finance lease liabilities (group)

	Minimum lease payments 2006 £m	**Interest 2006 £m**	**Principal 2006 £m**	Minimum lease payments 2005 £m	Interest 2005 £m	Principal 2005 £m
Less than one year	**23.7**	**3.9**	**19.8**	18.3	2.8	15.5
Between one year and five years	**49.4**	**8.0**	**41.4**	45.0	6.9	38.1
More than five years	**4.4**	**0.5**	**3.9**	—	—	—
	77.5	**12.4**	**65.1**	63.3	9.7	53.6

Under the terms of the lease agreements, no contingent rents are payable.

20. Financial liabilities — borrowings continued

Present value of minimum lease payments	2006 £m	2005 £m
Less than one year	**23.2**	17.8
Between one year and five years	**45.9**	40.2
More than five years	**3.1**	—

The group's main finance lease arrangements are for motor vehicles over three years and computer equipment over three or five years with options to renew the leases at the end of the lease term.

Effective interest rates and re-pricing analysis (group)

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they re-price, including the impact of derivative financial instruments.

	Effective interest rate	Total £m	6 months or less £m	6-12 months £m	1-2 years £m	2-3 years £m	3-4 years £m	> 4 years £m
Cash and cash equivalents	4.5%	856.0	856.0	—	—	—	—	—
Available for sale assets	4.5%	0.2	0.2	—	—	—	—	—
Unsecured bank loans:								
Eurobond 2009 — fixed at 5.5%	5.5%	(301.7)	—	—	—	—	(301.7)	—
Effect of interest rate swaps	(0.4)%	1.7	(150.0)	—	—	—	151.7	—
€300m floating eurobond 2007	2.9%	(207.3)	(207.3)	—	—	—	—	—
Euro floating rate notes	2.9%	(6.9)	(6.9)	—	—	—	—	—
Jpy floating rate notes	0.3%	(9.7)	(9.7)	—	—	—	—	—
Jpy fixed rate notes	0.5%	(8.8)	—	(4.9)	—	(3.9)	—	—
Effect of currency swaps	4.4%	—	(8.8)	4.9	—	3.9	—	—
Finance lease liabilities	6.4%	(65.1)	(10.0)	(9.8)	(17.5)	(13.6)	(7.9)	(6.3)
Fixed rate bank loans	8.2%	(15.7)	(15.7)	—	—	—	—	—
Floating rate bank loans	5.0%	(142.7)	(142.7)	—	—	—	—	—
Net cash/(debt)		100.0	305.1	(9.8)	(17.5)	(13.6)	(157.9)	(6.3)
Trade payables	—	(320.9)	(320.9)	—	—	—	—	—
Trade receivables	—	346.5	346.5	—	—	—	—	—
Net financial assets/ (liabilities)		**125.6**	**330.7**	**(9.8)**	**(17.5)**	**(13.6)**	**(157.9)**	**(6.3)**

The Euro and Japanese Yen (Jpy) floating rate notes have been swapped to sterling floating rate debt using cross currency swap contracts. The effective interest rate at the balance sheet date including the effect of these currency swaps is 4.8% for the Euro notes and 4.9% for the Jpy notes.

20. Financial liabilities — borrowings continued

Maturity profile of financial liabilities before the impact of derivative financial instruments (company)

Terms and debt repayment schedule 2006	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m
Fixed						
Eurobond 2009	(303.3)	—	(1.5)	(1.5)	(300.3)	—
Medium term notes	(8.7)	(4.8)	—	(3.9)	—	—
Floating						
€300m Eurobond 2007	(207.3)	—	(207.3)	—	—	—
Medium term notes	(16.6)	—	(6.9)	(9.7)	—	—
Bank overdrafts	(184.5)	(184.5)	—	—	—	—
Bank loans	(101.5)	(101.5)	—	—	—	—
Total borrowings	(821.9)	(290.8)	(215.7)	(15.1)	(300.3)	—
Derivative financial instruments — liabilities	(0.6)	(0.3)	0.2	(0.5)	—	—
Amounts due to subsidiary undertakings	(727.5)	(727.5)	—	—	—	—
Total financial liabilities	**(1,550.0)**	**(1,018.6)**	**(215.5)**	**(15.6)**	**(300.3)**	**—**

Terms and debt repayment schedule 2005	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m
Fixed						
Eurobond 2009	(305.8)	(0.2)	(1.4)	(1.4)	(1.5)	(301.3)
Medium term notes	(9.0)	—	(5.0)	—	(4.0)	—
Floating						
€300m Eurobond 2007	(206.1)	—	—	(206.1)	—	—
Medium term notes	(16.8)	—	—	(6.9)	(9.9)	—
Bank overdrafts	(30.0)	(30.0)	—	—	—	—
Bank loans	(80.2)	(80.2)	—	—	—	—
Total borrowings	(647.9)	(110.4)	(6.4)	(214.4)	(15.4)	(301.3)
Derivative financial instruments — liabilities	(0.5)	–	(0.2)	—	(0.3)	—
Amounts due to subsidiary undertakings	(874.0)	(874.0)	–	—	–	—
Total financial liabilities	**(1,522.4)**	**(984.4)**	**(6.6)**	**(214.4)**	**(15.7)**	**(301.3)**

Currency profile (company)
The analysis of financial assets and liabilities by currency is as follows:

2006	Total £m	Sterling £m	Euros £m	US Dollars £m	Other £m
Cash and cash equivalents	774.0	773.1	—	—	0.9
Bank overdrafts	(184.5)	(184.4)	—	—	(0.1)
Bonds	(510.6)	(303.3)	(207.3)	—	—
Medium term notes	(25.4)	—	(6.9)	—	(18.5)
Bank loans	(101.4)	(101.4)	—	—	—
Total borrowings	(821.9)	(589.1)	(214.2)	—	(18.6)
Derivative financial instruments					
— assets	0.7	0.7	—	—	—
— liabilities	(0.6)	(0.6)	—	—	—
Loans to subsidiary undertakings	707.5	687.5	3.0	—	17.0
Due from subsidiary undertakings	1,215.4	1,215.0	–	0.4	–
Due to subsidiary undertakings	(727.5)	(649.8)	(77.5)	(0.2)	–
Net financial assets/(liabilities)	**1,147.6**	**1,436.8**	**(288.7)**	**0.2**	**(0.7)**

20. Financial liabilities — borrowings continued

2005	Total £m	Sterling £m	Euros £m	US Dollars £m	Other £m
Cash and cash equivalents	27.7	13.6	6.8	3.2	4.1
Bank overdrafts	(30.0)	(30.0)	—	—	—
Bonds	(511.9)	(305.6)	(206.3)	—	—
Medium term notes	(25.8)	—	(6.9)	—	(18.9)
Bank loans	(80.2)	(80.2)	—	—	—
Total borrowings	(647.9)	(415.8)	(213.2)	—	(18.9)
Derivative financial instruments — liabilities	(0.5)	(0.5)	—	—	—
Loans to subsidiary undertakings	1,089.6	996.0	72.4	7.5	13.7
Due from subsidiary undertakings	710.9	710.9	—	—	—
Due to subsidiary undertakings	(874.0)	(641.4)	(232.4)	(0.2)	—
Net financial assets/(liabilities)	**305.8**	**662.8**	**(366.4)**	**10.5**	**(1.1)**

Effective interest rates and re-pricing analysis (company)

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they re-price.

	Effective interest rate	Total £m	6 months or less £m	6-12 months £m	1-2 years £m	2-3 years £m	3-4 years £m
Cash and cash equivalents	4.5%	774.0	774.0	—	—	—	—
Unsecured bank loans:							
Eurobond 2009 — fixed at 5.5%	5.5%	(303.3)	—	—	—	—	(303.3)
€300m floating eurobond 2007	2.9%	(207.1)	(207.1)	—	—	—	—
Euro floating rate notes	2.9%	(6.9)	(6.9)	—	—	—	—
Jpy floating rate notes	0.3%	(9.7)	(9.7)	—	—	—	—
Jpy fixed rate notes	0.5%	(8.8)	—	(4.9)	—	(3.9)	—
Effect of currency swaps	4.4%	—	(8.8)	4.9	—	3.9	—
Floating rate bank loans	5.0%	(286.0)	(286.0)	—	—	—	—
Loans to subsidiary undertakings	4.7%	707.5	707.5	—	—	—	—
Due from subsidiary undertakings	5.5%	1,215.4	1,215.4	—	—	—	—
Due to subsidiary undertakings	3.3%	(727.5)	(727.5)	—	—	—	—
Total financial assets/(liabilities)		**(1,147.6)**	**1,450.9**	**—**	**—**	**—**	**(303.3)**

The Euro and Japanese Yen (Jpy) floating rate notes have been swapped to sterling floating rate debt using cross currency swap contracts. The effective interest rate at the balance sheet date including the effect of these currency swaps is 4.8% for the Euro notes and 4.9% for the Jpy notes.

21. Analysis of group net cash/(debt) movement

	As at 1st April 2005 £m	Cash flow £m	Other non-cash changes £m	Currency £m	**As at 31st March 2006 £m**
Cash at bank and in hand	109.4	(28.5)	–	1.6	82.5
Bank overdrafts repayable on demand	(49.0)	6.3	–	–	(42.7)
Short term deposits	19.3	753.7	–	0.5	773.5
Net cash and cash equivalents	79.7	731.5	–	2.1	813.3
Obligations under finance leases	(53.6)	12.6	(24.1)	–	(65.1)
Other borrowings	(668.3)	18.0	(0.4)	0.5	(650.2)
Available for sale assets	0.2	–	–	–	0.2
Derivative financial instruments	0.8	–	1.0	–	1.8
Total	**(641.2)**	**762.1**	**(23.5)**	**2.6**	**100.0**

	As at 1st April 2004 £m	Cash flow £m	Other non-cash changes £m	Currency £m	As at 31st March 2005 £m
Cash at bank and in hand	110.5	(1.7)	—	0.6	109.4
Bank overdrafts repayable on demand	(112.9)	64.0	—	(0.1)	(49.0)
Short term deposits	239.0	(219.7)	—	—	19.3
Net cash and cash equivalents	236.6	(157.4)	—	0.5	79.7
Obligations under finance leases	(35.8)	17.7	(35.5)	—	(53.6)
Other borrowings	(376.7)	(293.3)	1.3	0.4	(668.3)
Available for sale assets	0.2	—	—	—	0.2
Derivative financial instruments	3.1	—	(2.3)	—	0.8
Total	(172.6)	(433.0)	(36.5)	0.9	(641.2)

22. Financial instruments

Fair values of financial instruments (group)

A comparison of carrying values and fair values of the group's financial assets and liabilities held to finance the group's operations as at 31st March 2006 is set out below.

	Carrying value 2006 £m	**Fair value 2006 £m**	Carrying value 2005 £m	Fair value 2005 £m
Cash and cash equivalents	**856.0**	**856.0**	128.7	128.7
Available for sale assets	**0.2**	**0.2**	0.2	0.2
Total cash and cash equivalents	**856.2**	**856.2**	128.9	128.9
Bank overdrafts	**(42.7)**	**(42.7)**	(49.0)	(49.0)
Bonds	**(509.0)**	**(510.0)**	(507.4)	(505.7)
Medium term notes	**(25.4)**	**(25.4)**	(25.8)	(25.8)
Bank loans	**(115.8)**	**(115.8)**	(135.1)	(135.9)
Finance lease liabilities	**(65.1)**	**(72.2)**	(53.6)	(58.0)
Total borrowings	**(758.0)**	**(766.1)**	(770.9)	(774.4)
Derivative instruments held to manage the interest rate and currency profile				
Interest rate derivatives	**1.7**	**1.7**	1.3	1.3
Cross currency derivatives	**(0.6)**	**(0.6)**	(0.5)	(0.5)
Forward exchange forward contracts	**0.7**	**0.7**	—	—
	1.8	**1.8**	0.8	0.8
Net cash/(debt)	**100.0**	**91.9**	(641.2)	(644.7)
Trade payables	**(320.9)**	**(320.9)**	(364.4)	(364.4)
Trade receivables	**346.5**	**346.5**	413.8	413.8
Total financial assets/(liabilities)	**125.6**	**117.5**	(591.8)	(595.3)

22. Financial instruments continued

Fair values of bonds, available for sale assets and foreign exchange contracts have been determined with reference to quoted market prices. All other fair values have been determined by discounting expected future cash flows at interest rates prevailing at 31st March 2006. All fair values are shown at their 'clean' price.

Available for sale financial assets comprise gilt yield Treasury stock. Movements in fair value (derived from quoted market rates) are deferred in equity until the asset is sold. At 31st March 2006 £(0.1)m was deferred in equity (2005 £(0.1)m).

Credit risk (group)

The group invests surplus funds in high quality liquid market instruments, including money market deposits and money market funds. Such investments have a maturity no greater than three months. The difference between the book and fair value of these instruments is not significant.

The group's exposure to credit risk is controlled by setting a policy for limiting exposure to counterparties, which is reviewed annually. The objective is to reduce the risk of loss through default by counterparties, by spreading transactions, including bank deposits, across an approved list of high quality banks and cash funds. Counterparty credit positions are monitored on a regular basis. The group considers the possibility of significant loss in the event of non-performance by a financial counterparty to be unlikely.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, at the balance sheet date.

Currency risk (group)

The group utilises currency derivatives to hedge significant committed transactions and cash flows. The group is party to a variety of currency derivatives in the management of exchange rate exposures, including foreign exchange contracts and cross currency swaps.

At the balance sheet date, the total notional amount of outstanding foreign exchange contracts that the group has committed to is as follows:

	2006 £m	2005 £m
Total foreign exchange contracts	**151.6**	20.1

The effect of currency swaps and foreign exchange forward contracts on borrowings is shown below:

	Before hedging 2006 £m	**After hedging 2006 £m**	Before hedging 2005 £m	After hedging 2005 £m
Sterling	**(520.9)**	**(719.0)**	(515.6)	(595.2)
Euro	**(218.3)**	**(38.7)**	(216.4)	(155.7)
Other	**(18.8)**	**(0.3)**	(38.9)	(20.0)
Total borrowings	**(758.0)**	**(758.0)**	(770.9)	(770.9)

Forward exchange contracts (group)

At 31st March 2006, the fair value of the group's outstanding forward exchange contracts is £0.7m (2005 £nil). The amounts comprise £0.7m assets included in trade and other receivables.

At 31st March 2006, the group had outstanding £16.3m of currency exchange contracts that are designated and effective as cash flow hedges of committed transactions. Fair value movements arising from these contracts are deferred in equity until the hedged transaction takes place.

22. Financial instruments continued

Where derivatives hedge committed acquisitions, the initial measurement of the underlying asset will be adjusted for the recognised gain or loss.

No amounts have been deferred in equity as at 31st March 2006 (2005 £nil). An amount of £(0.8)m has been transferred to the income statement in respect of contracts that have matured during the period.

All contracts outstanding at 31st March 2006 that have been designated as cash flow hedges will mature within 12 months of the balance sheet date.

Movements in fair value of all forward exchange contracts other than those designated and effective as cash flow hedges are reported directly in the income statement.

Cross currency swaps (group)

The group has a number of cross currency swap contracts in place to manage the currency and interest rate risk of foreign currency denominated debt. At 31st March 2006, the fair value of the group's cross currency swaps is £(0.6)m (2005 £(0.5)m). Movements in fair value are reported directly in the income statement along with the exchange gain or loss of the hedged item.

Net investment hedge (group)

The group has designated €50m (after the effect of derivative financial instruments) of its Euro denominated debt (2005 €225m) as a hedge against the translation of its foreign operations. Exchange movements are taken to reserves to offset the gain or loss on the underlying assets. As the hedge has been highly effective in the year £0.6m (2005 £(4.9)m) is reported in equity.

Interest rate risk (group)

The group has a £150m interest rate swap in place to manage its exposure to interest rate movements on its borrowings. The interest rate swap has fixed interest receipts of 5.5% for the period up to 2009, and floating interest payments of LIBOR plus 0.175%.

The fair value of the swap at 31st March 2006 is £1.7m. The interest rate swap is designated and effective as a fair value hedge of £150m of the £300m bond. The movement in the fair value of the interest rate swap and bond are reported in the income statement.

Hedge accounting (group)

Achieving hedge accounting under IAS 39 is based on measuring the effectiveness of the derivative as a hedge instrument as well as fulfilling hedge documentation rules. The effectiveness test compares the change in fair value of the designated derivative and the change in the fair value of the hedged item, to determine whether the ratio falls within the permitted range of 80% to 125%. Any derivative that falls outside the permitted range should be reclassified as held for trading. Where a derivative does fall within the permitted range but is not 100% effective, the ineffective portion is recognised in the income statement immediately. This gives rise to a gain or loss which is recognised with financial income or financial expense as appropriate.

Gains or losses on derivatives are recognised immediately in the income statement except where the derivative is designated as an effective cash flow or net investment hedge, in which case the gains or losses are deferred within equity and are recycled through the income statement when the hedged item is recognised in the income statement.

22. Financial instruments continued

Trade credit risk (group)

Concentrations of credit risk with respect to trade debtors are limited due to the group's customer base being large and unrelated. Due to this, management believe that there is no further credit risk provision required in excess of the normal provision for impairment of trade debtors.

Fair values of financial instruments (company)

A comparison of carrying values and fair values of the company's financial assets and liabilities held to finance the company's operations as at 31st March 2006 is set out below.

	Carrying value 2006 £m	**Fair value 2006 £m**	Carrying value 2005 £m	Fair value 2005 £m
Cash and cash equivalents	**774.0**	**774.0**	27.7	27.7
Bank overdrafts	**(184.5)**	**(184.5)**	(30.0)	(30.0)
Bonds	**(510.6)**	**(510.0)**	(511.9)	(505.7)
Medium term notes	**(25.4)**	**(25.4)**	(25.8)	(25.8)
Bank loans	**(101.4)**	**(101.4)**	(80.2)	(80.2)
Total borrowings	**(821.9)**	**(821.3)**	(647.9)	(641.7)
Derivative instruments held to manage the interest rate and currency profile				
Cross currency derivatives	**(0.6)**	**(0.6)**	(0.5)	(0.5)
Foreign exchange forward contracts	**0.7**	**0.7**	—	—
	0.1	**0.1**	(0.5)	(0.5)
Loans to subsidiary undertakings	**707.5**	**709.2**	1,089.6	1,090.9
Due from subsidiary undertakings	**1,215.4**	**1,215.4**	710.9	710.9
Due to subsidiary undertakings	**(727.5)**	**(727.5)**	(874.0)	(874.0)
Total financial assets	**1,147.6**	**1,149.9**	305.8	313.3

Fair values of bonds, available for sale assets and foreign exchange contracts have been determined with reference to quoted market prices. All other fair values have been determined by discounting expected future cash flows at interest rates prevailing at 31st March 2006. All fair values are shown at their 'clean' price.

Derivative financial instruments (company)

The company has used derivative financial instruments to hedge its and the group's exposure to fluctuations in interest and foreign exchange rates. Derivative financial instruments are designated as hedges in line with the group's risk management policies. All derivatives are measured at fair value. The only derivative financial instruments which are designated as a hedge relationship for the company are fair value hedges. Gains and losses on these instruments are recognised in the income statement and the carrying value of the hedged item is adjusted to reflect movement associated with the hedged risks.

Any derivative that falls outside the permitted range of effectiveness should be classified as held-for-trading. Where a derivative does fall within the permitted range but is not 100% effective, the ineffective portion is recognised in the income statement immediately. This gives rise to a gain or loss which is recognised under Financial income or Financial expense as appropriate.

Loans held by the company are measured at amortised cost except where the underlying transaction is designated within an effective fair value hedge relationship. In these cases the carrying value is adjusted to reflect movements associated with the hedged risk.

22. Financial instruments continued

At 31st March 2006, the fair value of derivative financial instruments held by the company classified as held for trading was £0.7m (2005 £nil). Changes in the fair value of derivative financial instruments held by the company classified as held for trading recognised in the income statement during the year totalled £(0.7)m (2005 £nil).

23. Provisions

Group	Refurbishment and reorganisation £m	Vacant property £m	Closure or termination of operations £m	Total £m
Balance at 1st April 2005	—	11.7	12.3	24.0
Provisions made during the year	113.1	2.7	21.7	137.5
Provisions used during the year	(0.1)	(2.8)	(4.8)	(7.7)
Provisions reversed during the year	(1.0)	(2.2)	(0.7)	(3.9)
Currency adjustments	(0.6)	—	—	(0.6)
Balance at 31st March 2006	**111.4**	**9.4**	**28.5**	**149.3**
Non-current	**67.2**	**6.3**	**13.7**	**87.2**
Current	**44.2**	**3.1**	**14.8**	**62.1**
	111.4	**9.4**	**28.5**	**149.3**

Vacant property

The vacant property provisions represent recognition of the expected net costs arising from vacant properties and sub-let properties, the exact timing of utilisation of these provisions will vary according to the individual properties concerned.

Closure or termination of operations

The provision for closure or termination of operations relates to recognition of expected costs arising as a result of the Halfords, Lasik and Dentistry disposals, the withdrawal from Chiropody and the rationalising of the group's manufacturing facilities. In addition, a provision has been made following the disposal of BHI for the onerous supply contract with Reckitt Benckiser. The majority of the costs are expected to be incurred in the next two years.

Refurbishment and reorganisation

The refurbishment and reorganisation provision relates primarily to the Boots The Chemists store refurbishments and supply chain reorganisation. The majority of these costs are expected to be incurred in the next two years. In respect of the store refurbishment programme estimates of expected costs have been based on a store-by-store survey and comprise management's view of lease obligations.

24. Capital and reserves

Group

Reconciliation of movement in capital reserves	Retained earnings: Own shares £m	Retained earnings: Revaluation reserve £m	Retained earnings: Other profit and loss £m	Retained earnings: Total £m	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Capital redemption reserve £m	Merger reserve £m	Total £m	Minority interest £m	Total equity £m
At 1st April 2004	(139.3)	217.7	1,252.0	1,330.4	193.9	0.3	—	(0.3)	0.1	15.2	310.8	1,850.4	1.2	1,851.6
Profit for the year	—	—	265.9	265.9	—	—	—	—	—	—	—	265.9	0.5	266.4
New share capital of Boots Group PLC issued	—	—	—	—	—	2.0	—	—	—	—	—	2.0	—	2.0
Unrealised gains on cash flow hedges	—	—	—	—	—	—	—	0.3	—	—	—	0.3	—	0.3
Disposal of own shares	20.7	—	(13.0)	7.7	—	—	—	—	—	—	—	7.7	—	7.7
Repurchase of shares	—	—	(300.0)	(300.0)	(11.3)	—	—	—	—	11.3	—	(300.0)	—	(300.0)
Revaluation surplus realised on disposals	—	(1.2)	1.2	—	—	—	—	—	—	—	—	—	—	—
Revaluation reserve element of depreciation charge	—	(1.0)	1.0	—	—	—	—	—	—	—	—	—	—	—
Share based payments	—	—	5.8	5.8	—	—	—	—	—	—	—	5.8	—	5.8
Actuarial gain, net of tax	—	—	11.4	11.4	—	—	—	—	—	—	—	11.4	—	11.4
Dividends to shareholders	—	—	(225.1)	(225.1)	—	—	—	—	—	—	—	(225.1)	(0.6)	(225.7)
Currency adjustments	—	—	—	—	—	—	1.4	—	—	—	—	1.4	—	1.4
At 31st March 2005	(118.6)	215.5	999.2	1,096.1	182.6	2.3	1.4	—	0.1	26.5	310.8	1,619.8	1.1	1,620.9
At 1st April 2005	(118.6)	215.5	999.2	1,096.1	182.6	2.3	1.4	—	0.1	26.5	310.8	1,619.8	1.1	1,620.9
Profit for the year	—	—	1,773.7	1,773.7	—	—	—	—	—	—	—	1,773.7	—	1,773.7
Disposal of own shares	0.1	—	(0.3)	(0.2)	—	—	—	—	—	—	—	(0.2)	—	(0.2)
Repurchase of shares	—	—	(50.1)	(50.1)	(2.0)	—	—	—	—	2.1	—	(50.0)	—	(50.0)
Revaluation surplus realised on disposals	—	(54.5)	54.5	—	—	—	—	—	—	—	—	—	—	—
Revaluation reserve element of depreciation charge	—	(0.8)	0.8	—	—	—	—	—	—	—	—	—	—	—
Share based payments	—	—	5.3	5.3	—	—	—	—	—	—	—	5.3	—	5.3
Actuarial loss, net of tax	—	—	(54.3)	(54.3)	—	—	—	—	—	—	—	(54.3)	—	(54.3)
Dividends to shareholders	—	—	(1,640.3)	(1,640.3)	—	—	—	—	—	—	—	(1,640.3)	—	(1,640.3)
Disposal of business	—	—	—	—	—	—	(12.3)	—	—	—	—	(12.3)	(1.1)	(13.4)
Currency and other adjustments	—	—	1.0	1.0	—	—	8.8	—	—	—	—	9.8	—	9.8
At 31st March 2006	**(118.5)**	**160.2**	**1,089.5**	**1,131.2**	**180.6**	**2.3**	**(2.1)**	**—**	**0.1**	**28.6**	**310.8**	**1,651.5**	**—**	**1,651.5**

24. Capital and reserves continued

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the company, as well as from the translation of liabilities that hedge the company's net investment in foreign subsidiaries.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available for sale investments, until the investment is derecognised.

Merger reserve

The balance on the merger reserve at 31st March 2006 represents the difference between called up share capital of the company and the called up share capital, share premium account and capital redemption reserve of the former holding company (The Boots Company PLC) at 20th January 2003, the date of the capital reorganisation.

Own share reserve

The own share reserve comprises the cost of the company's shares held by the group. At 31st March 2006 the number of own shares held by the group was 9.4m (2005 14.4m). These were held in the various employee share ownership trusts. The market value of these shares is £67.6m (2005 £90.1m). The balances in the own share reserve of the company relate to the schemes sponsored by Boots Group PLC. Balances in the group own share reserve also include schemes sponsored by The Boots Company PLC.

Capital redemption reserve

The capital redemption reserve comprises transfers from share capital of the nominal value of shares when such shares are redeemed or purchased wholly out of distributable profits.

Company **Reconciliation of movement in capital and reserves**	Own shares £m	Other profit and loss £m	Total retained earnings £m	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Total £m
At 1st April 2004	—	604.7	604.7	193.9	0.3	15.2	3,080.2	3,894.3
Profit for the year	—	966.6	966.6	—	—	—	—	966.6
Dividends to shareholders	—	(225.1)	(225.1)	—	—	—	—	(225.1)
New share capital of Boots Group PLC issued	—	—	—	—	2.0	—	—	2.0
Repurchase of shares	—	(300.0)	(300.0)	(11.3)	—	11.3	—	(300.0)
Share based payments	—	4.6	4.6	—	—	—	—	4.6
Movement in own shares	(12.5)	5.5	(7.0)	—	—	—	—	(7.0)
At 31st March 2005	(12.5)	1,056.3	1,043.8	182.6	2.3	26.5	3,080.2	4,335.4
At 1st April 2005	(12.5)	1,056.3	1,043.8	182.6	2.3	26.5	3,080.2	4,335.4
Profit for the year	—	844.7	844.7	—	—	—	—	844.7
Dividends to shareholders	—	(1,640.3)	(1,640.3)	—	—	—	—	(1,640.3)
Transfers	—	957.0	957.0	—	—	—	(957.0)	—
Repurchase of shares	—	(50.1)	(50.1)	(2.0)	—	2.1	—	(50.0)
Share based payments	—	5.3	5.3	—	—	—	—	5.3
Movement in own shares	(5.9)	—	(5.9)	—	—	—	—	(5.9)
At 31st March 2006	**(18.4)**	**1,172.9**	**1,154.5**	**180.6**	**2.3**	**28.6**	**2,123.2**	**3,489.2**

24. Capital and reserves continued

Distributable reserves of the company

£2,123.2m of reserves of the company relate to group restructurings and are not distributable. These are all held in the merger reserve.

25. Dividends

Amounts recognised as distributions to equity holders in the period	2006 p per share	2006 £m	2005 p per share	2005 £m
Final dividend for the year ended 31st March 2005/2004	**21.0**	**150.1**	21.0	158.6
Interim dividend for the year ended 31st March 2006/2005	**9.1**	**64.3**	9.1	66.5
Special dividend	**200.0**	**1,425.9**	—	—
	230.1	**1,640.3**	30.1	225.1
Proposed final dividend for the year ended 31st March 2006/2005	**21.0**	**100.7**	21.0	150.1

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements and there are no income tax consequences for the group.

26. Share based payments

The group operates an All Employee Share Ownership Plan (AESOP). Under the free share part of the plan, employees in service for the whole of the preceding financial year are awarded a grant of free shares, conditional on completion of three years further service from the date of grant and a profit target being met. Shares are held in trust for employees from the date of grant. The cost of this plan is calculated by charging the entitlement to shares based on the group's estimate of the number of shares likely to vest.

The group also has a Long Term Bonus Scheme under which executive directors and certain senior executives can receive ordinary shares if a performance condition based on Total Shareholder Return is met. Awards are made from shares purchased in the market held in an ESOP trust. The performance condition is a market based condition. Fair value is estimated at the beginning of each performance period based on expected performance and thereafter adjusted only for the impact of leavers.

The Long Term Bonus Scheme was replaced with a new Performance Share Plan for performance periods commencing 1st April 2005. Under the new scheme, executive directors can receive ordinary shares if a performance condition based on Total Shareholder Return relative to a UK retail index comprising the FTSE 350 General Retailers index and the FTSE 350 Food and Drug Retailers index (weighted 50% each). Fair value is estimated at the beginning of each performance period based on expected performance and thereafter adjusted only for the impact of leavers.

Under an Executive Share Option Plan, executive directors and certain senior executives have been granted options to subscribe for ordinary shares subject to a performance condition based on the group's Earnings Per Share growth. The fair value of options on the date of grant has been estimated by an independent third party using a proprietary valuation model. The inputs into the model were option price (£5.76-£7.10), expected volatility (21-23%) based on historic volatility, expected dividend yield (5%), a share price of £6.50, a risk-free rate of 5.5% and a term of ten years with no exercise possible during the first three years. This fair value has been spread over the expected vesting period based on estimates of future EPS performance and adjusted for leavers. New shares are issued to satisfy awards under this scheme (none have so far vested). Latest estimates of future EPS performance in March 2006 predict that none of the

26. Share based payments continued

awards granted after 7th November 2002 are likely to vest. Amounts charged to the income statement in relation to these schemes (£1.5m) have therefore been released in 2005/2006.

Under a coinvestment plan, executive directors are entitled to invest up to 50% of their short term bonus for the previous year in Boots shares in return for a matching opportunity of up to 2:1, depending on Earnings Per Share performance over a three-year period. No short term bonus was paid in respect of the year ended 31st March 2005, and the plan was therefore not operated during the year ended 31st March 2006.

A number of grants under the schemes listed above and also under a Save As You Earn (SAYE) option scheme were made before 7th November 2002. The recognition and measurement principles have not been applied to these grants in accordance with the transitional provisions of IFRS 2 'Share based payment'.

The terms and conditions of the grants made after 7th November 2002 whereby, all rights will be satisfied by the delivery of shares are as follows:

Grant date	Number of instruments	Vesting conditions	Contractual life of shares/options
Executive options			
29/11/2002	63,842	EPS performance target after three years (retested if necessary at the end of 4, 5 and 6 years)	10 years
23/6/2003	1,568,547	EPS performance target after three years (retested if necessary at the end of 4, 5 and 6 years)	10 years
18/9/2003	272,925		10 years
4/12/2003	50,385		10 years
14/6/2004	1,444,474	EPS performance target after three years (retested if necessary at the end of 5 years)	10 years
8/11/2004	35,981		10 years
AESOP shares			
27/6/2003	1,225,378	Employment throughout the financial year prior to grant date plus a further 3 years from grant and profit target	—
2/7/2004	1,021,063		—
16/6/2005	1,107,830		—

The terms and conditions of performance cycles for the Long Term Bonus Scheme (LTBS) commencing after 7th November 2002, whereby all rights will be satisfied by the delivery of shares are as follows:

LTBS cycle commencing	Number of instruments	Vesting conditions
1/4/2003	1,857,986	Total shareholder return ranking against a peer group of 10 other companies
1/4/2004	1,085,170	

Performance share plan commencing	Number of instruments	Vesting conditions
1/4/2005	1,321,810	Total shareholder return relative to a UK Retail index (FTSE 350)

26. Share based payments continued

The number and weighted average exercise prices of executive options granted are as follows:

	Granted pre 7th November 2002		Granted after 7th November 2002	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the period	£6.21	1,629,977	£6.34	3,006,890
Forfeited during the period	£6.23	368,654	£6.28	563,781
Exercised during the period	N/a	nil	N/a	nil
Granted during the period	N/a	nil	N/a	nil
Outstanding at the end of the period	£6.20	1,261,323	£6.36	2,443,109
Exercisable at the end of the period	N/a	nil	N/a	nil

The exercise price range and average contractual life of executive options granted is as follows:

	Granted pre 7th November 2002	Granted after 7th November 2002
Exercise price range	£5.94 to £6.35	£5.76 to £7.10
Weighted average contractual life	6.0 years	8.7 years

Fair value at measurement date (for equity instruments granted during the year):

	2006 £m	2005 £m
Free shares granted during the period	**6.6**	7.0
Executive options granted during the period	**nil**	2.3
Long term bonus scheme awards with performance conditions commencing during the year	**nil**	2.1
Performance share plan awards with performance conditions commencing during the year	**8.0**	N/a

Employee expenses	**2006 £m**	2005 £m
Free shares granted	**5.3**	4.5
Executive options granted	**(1.5)**	0.8
Long term bonus scheme	**0.1**	(0.2)
Performance share plan	**0.9**	–
	4.8	5.1
BHI disposal	**0.5**	–
Total expense recognised as employee costs	**5.3**	5.1

27. Share capital

	2006 Number of shares m	**2006 £m**	2005 Number of shares m	2005 £m
Ordinary shares of 37 7/39p (2005 25p) each:				
Authorised	**806.9**	**300.0**	1,200.0	300.0
Allotted, called up and fully paid	**485.7**	**180.6**	730.5	182.6

Shares allotted during the year	Number m	Nominal value £m	Consideration £m
Option schemes	–	–	–

27. Share capital continued

	Ordinary shares 2006 Number m	Ordinary shares 2005 Number m
On issue at 1st April	**730.5**	775.5
Repurchase of shares	**(8.1)**	(45.4)
Shares issued	**–**	0.4
Share consolidation	**(236.7)**	–
On issue at 31st March	**485.7**	730.5

Share repurchase

During the year to 31st March 2006, 8.1m ordinary shares were purchased and subsequently cancelled at prices ranging from 586p per share to 650p per share, with an average of 613p per share. The total cost of the purchases was £50.0m, which has been charged against distributable reserves.

Share consolidation

After the sale of Boots Healthcare International, £1.426bn was returned to shareholders by means of a special dividend of 200p per share. A share consolidation was performed on 13th February 2006 in the ratio of 39 new shares for every 58 shares held.

Share options

Under a savings-related scheme, options have been granted enabling employees to subscribe for ordinary shares at approximately 80% of market price. In 1999, a QUEST was established to acquire shares in the company as a means by which shares would be delivered to employees exercising the options granted. At 31st March 2006, options exercisable from 2006 to 2007 at between 624p and 808p per share were outstanding in respect of 0.4m shares (2005 0.9m). Under an executive share option plan, certain senior executives have been granted options to subscribe for ordinary shares after a period of three years from date of grant as long as performance targets are met. At 31st March 2006, options exercisable from 2006 to 2015 at between 576p and 710p per share were outstanding in respect of 3.7m shares (2005 4.6m).

Own shares

At 31st March 2006 the number of own shares held by the group was 9.4m (2005 14.4m). These were held in the various employee share ownership trusts. The market value of these shares is £67.6m (2005 £90.1m).

28. Operating leases

Non-cancellable operating lease rentals are payable as follows:	**2006 £m**	2005 £m
Less than one year	**204.7**	182.2
Between one and five years	**776.6**	677.5
More than five years	**1,385.7**	1,259.5
	2,367.0	2,119.2

The group leases a large number of its properties under operating leases. The leases run predominantly for periods from 1 to 25 years, with options to renew the leases at the end of the period. Lease rentals are increased in regular intervals to reflect market rentals. None of the leases include material contingent rentals.

A £298m sale and leaseback deal on 312 stores was completed in the year. The stores were mainly freehold High Street Shops in small towns and represented around a third of Boots freehold portfolio by value and two thirds by the number of properties. The leased properties are held as operating leases. The properties have been leased back at an initial rental of £16m

28. Operating leases continued

per annum with fixed annual uplifts of 1.5%. The average annual rental charge over the full 15-year lease period will be £18m.

During the year ended 31st March 2006, £233.7m was recognised as an expense in the income statement in respect of operating leases (2005 £198.7m).

29. Commitments and contingent liabilities

(i) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:	2006 £m	2005 £m
Contracts placed	**61.3**	16.9

(ii) Contingent liabilities

Knoll Pharmaceutical Co. ('Knoll') has been a defendant in a number of consumer class actions in 30 states of the USA, Canada and Puerto Rico. Knoll was the successor to Boots Pharmaceuticals Inc., formerly an indirect subsidiary of the company, which was sold to the BASF group under agreements made by the company in March 1995. The company was named as a defendant in some of these actions, which allege that the marketing of the product Synthroid did not comply with consumer protection and business practice laws. A settlement by Knoll of consumer actions and claims of insurers and state attorneys general in the United States has been approved, and a settlement of most of the actions in Canada has been approved. The company asserted that the relevant courts in North America had no jurisdiction over it in these cases and this was approved by a state court in Illinois. In the light of current information, the directors believe that the company has good defences to such claims as may arise concerning Synthroid including any that might be brought by BASF and, while the outcome of such claims as may arise remains uncertain, they believe that it should not have a material adverse impact on the group.

30. Employee benefits

The group operates pension schemes throughout the world, most of which are final salary (defined benefit) schemes.

Boots Pension Scheme and other defined benefit plans

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

The group also operates defined benefit plans for a number of small overseas schemes. The following disclosures relate primarily to the Boots Pension Scheme. The company does not participate in, or sponsor, any of the group schemes.

Amounts recognised in the balance sheet	2006 £m	2005 £m
Present value of funded obligations	**(3,524.2)**	(3,096.4)
Fair value of plan assets	**3,468.0**	3,058.8
Recognised liability for defined benefit obligations	**(56.2)**	(37.6)
Amounts recognised in the balance sheet	**(56.2)**	(37.6)

The plan assets include bonds with a fair value of £2,918.7m, equities with a fair value of £405.9m and other net assets with a fair value of £143.4m. Of the £56.2m deficit, £21.6m relates

30. Employee benefits continued

to the principal Boots Pension Scheme. The £85m additional contribution from the BHI disposal proceeds was completed on 7th April 2006 with a payment of £42.5m.

Changes in the present value of the defined benefit obligation	2006 £m	2005 £m
Opening defined benefit obligation	**3,096.4**	2,894.0
Current service cost	**61.7**	75.6
Past service cost	**6.0**	12.7
Interest cost	**166.7**	159.0
Curtailments	**(15.7)**	—
Actuarial losses	**299.8**	43.5
Benefits paid	**(90.7)**	(88.4)
Closing defined benefit obligation	**3,524.2**	3,096.4

Changes in the fair value of plan assets	2006 £m	2005 £m
Opening fair value of plan assets	**3,058.8**	2,882.0
Contributions	**111.9**	63.5
Expected return	**163.3**	142.0
Actuarial gains	**224.7**	59.7
Benefits paid	**(90.7)**	(88.4)
Closing fair value of plan assets	**3,468.0**	3,058.8

The group expects to contribute £102.5m to its defined benefit pension plan in 2007.

Expense recognised in the income statement	2006 £m	2005 £m
Current service cost	**61.7**	75.6
Past service cost	**6.0**	12.7
Curtailments	**(15.7)**	—
Interest on obligation	**166.7**	159.0
Expected return on plan assets	**(163.3)**	(142.0)
	55.4	105.3

The expense is recognised in the following line items in the income statement	2006 £m	2005 £m
Cost of sales	**1.6**	2.4
Distribution cost	**49.7**	64.8
Administrative costs	**16.4**	21.1
Other operating expenses	**(3.0)**	—
Profit on sale of discontinued operations	**(12.7)**	—
Net finance costs	**3.4**	17.0
	55.4	105.3

Principal actuarial assumptions at the balance sheet date	2006	2005
Inflation	**2.9%**	2.9%
Rate of general long-term increase in salaries	**4.4%**	4.4%
Rate of increase to pensions in payment	**2.8%**	2.8%
Discount rate for scheme liabilities	**4.9%**	5.4%
Expected return on plan assets		
— Bonds	**4.8%**	5.2%
— Equities	**7.5%**	7.7%
— Other net assets	**4.6%**	4.9%
— Property	**6.5%**	—
Actual return on plan assets £m	**370.0**	201.7

30. Employee benefits continued

The expected rate of return on plan assets has been determined with reference to market returns at the balance sheet date. The mortality assumption used in the valuation of scheme liabilities is that for members retiring at 60, men are expected on average to live to the age 83 and women to age 85.

Amounts for the current and previous period are as follows:	2006 £m	2005 £m
Defined benefit obligation	**(3,524.2)**	(3,096.4)
Plan assets	**3,468.0**	3,058.8
Deficit	**(56.2)**	(37.6)
Experience adjustments on plan liabilities	**9.7**	95.8
Experience adjustments on plan assets	**206.7**	59.7

Amounts recognised in the statement of recognised income and expense (before tax)	2006 £m	2005 £m
Actual return in excess of expected return on pension scheme assets	**224.7**	59.7
Experience gains arising on the scheme liabilities	**9.7**	95.8
Changes in assumptions underlying the present value of the scheme liabilities	**(309.5)**	(139.3)
	(75.1)	16.2
Cumulative amount of actuarial (losses)/gains recognised in the SORIE at the end of the year	**(58.9)**	16.2

Other pension arrangements

Since 1st October 2000, new UK employees have been offered membership of Boots Stakeholder Pension Plan, a defined contribution pension arrangement. After five years' membership of this plan, employees have the opportunity to join Boots Pension Scheme. The cost of these arrangements was £1.9m (2005 £3.3m).

31. Employee numbers and costs

The average number of persons employed by the group:	2006 Number of heads	2006 Full time equivalents	2005 Number of heads	2005 Full time equivalents
Continuing operations				
Boots The Chemists	**57,478**	**33,698**	59,538	35,384
Boots Opticians	**3,722**	**2,629**	4,171	2,938
Boots Retail International	**1,050**	**989**	960	927
Group and other	**735**	**675**	916	852
Continuing operations	**62,985**	**37,991**	65,585	40,101
Boots Healthcare International	**2,829**	**2,717**	3,270	3,165
Other discontinued operations	**27**	**23**	776	606
Total	**65,841**	**40,731**	69,631	43,872

Total number of persons employed by continuing operations at 31st March 2006 was 62,663 heads, 38,867 full time equivalents (2005 65,700 heads, 41,620 full time equivalents).

Personnel expenses	2006 £m	2005 £m
Wages and salaries	**864.0**	839.5
Social security costs	**68.8**	67.5
Pension costs — defined contribution plans	**3.8**	8.4
Current service costs — defined benefit plans	**61.7**	75.6
Equity settled transactions	**5.3**	5.1
	1,003.6	996.1

There are no personnel expenses in the parent company.

32. Related parties

The group has a related party relationship with its subsidiaries, and with its directors and executive officers. Transactions between the company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

During the year the group had no material transactions with related parties.

The company has a number of loans with its subsidiary companies. All of these loans are interest-bearing and are repayable within one year. The balance of these loans owing to the company at 31st March 2006 was £639.6m (2005 £917.4m). The company also has interest-bearing balances with subsidiary companies which are repayable on demand. The net amount owing to the company at 31st March 2006 is £554.2m (2005 £20.2m).

Interest receivable on the interest-bearing loans and balances was £268.4m (2005 £262.8m) and interest payable was £184.1m (2005 £175.1m).

During the year, and also in the prior year, the company received a dividend of £1bn from a subsidiary company, The Boots Company PLC. In the prior year, the company acquired a subsidiary Boots Healthcare International (Holdings) Ltd from another subsidiary, The Boots Company PLC, for consideration of £805m.

During the year, the company made charges of £4.8m (2005 £5.3m) to other group companies for the costs of various employee benefit arrangements which it operates on behalf of the group. Additionally, it received charges from another group company for the provision of management services of £15.5m (2005 £17.2m).

The remuneration of the directors and members of the executive committee, who are the key management personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2006 £m	2005 £m
Short-term employee benefits	**5.2**	3.9
Post-employment benefits	**—**	—
Other long term benefits	**0.5**	0.6
Termination benefits	**1.3**	—
Share based payment	**0.3**	0.3
Total	**7.3**	4.8

33. Accounting estimates and judgments

Management discussed with the Audit Committee the development, selection and disclosure of the group's critical accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty

Stock provisions

The stock provision relates to subjective stores stock and covers lines which have already been, or are shortly to be, discontinued as well as product recalls and withdrawals.

The provision applied to uncounted stock is based on the average loss rates over the recent months on counted stock. The provision is based on counts, which are considered to be representative of all stores, excluding non-standard operations and stores with significant one off losses.

33. Accounting estimates and judgments continued

Critical accounting judgments in applying the group's accounting policies

Certain critical accounting judgments in applying the group's accounting policies are described below.

Sale and leaseback

Surveys carried out as part of the sales process identified repairs required to the properties totalling £13.6m. A clause in the sale and leaseback agreement requires Boots to make good these repairs within two years. This amount has therefore been included within the profit on disposal and will be carried as a provision on the balance sheet until all the repairs have been made.

Merger costs

During 2005/2006, £7.8m of costs associated with the proposed merger with Alliance UniChem have been incurred by the company.

It is the view of management that, following the clearance of the merger by the Office of Fair Trading, the merger is now likely to proceed and on that basis feel that it is appropriate to allocate the costs to the balance sheet at 31st March 2006 and to then capitalise them during 2006/2007.

Advantage card

Current provisioning policy assumes 95% of points will be redeemed.

Store refurbishment

A provision has been recognised in the balance sheet at 31st March 2006 for backlog refurbishment of stores in Boots The Chemists and Boots Opticians. As management were fully committed to the expenditure at 31st March 2006 and because the group had an obligation as part of its lease agreements with landlords, they believe the appropriate accounting treatment is to make a provision in the balance sheet at that date.

34. Explanation of transition to IFRS (group)

This is the first year that the Group has presented its consolidated financial statements under IFRS.

The accounting policies set out on pages 86 to 93 have been applied in preparing the financial statements for the year ended 31st March 2006, the comparative information presented in these financial statements for the year ended 31st March 2005 and in the preparation of the opening IFRS balance sheet at 1st April 2004 (the transition date).

In preparing its opening IFRS balance sheet, the group has adjusted amounts previously reported in financial statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and notes.

34. Explanation of transition to IFRS (group) continued

Reconciliation of equity Group	Note	1st April 2004 2004 under UK GAAP £m	1st April 2004 Effect of transition to IFRS £m	1st April 2004 2004 under IFRS £m	31st March 2005 2005 under UK GAAP £m	31st March 2005 Effect of transition to IFRS £m	31st March 2005 2005 under IFRS £m
ASSETS							
Non-current assets							
Goodwill	a	24.0	(22.0)	2.0	25.4	(25.0)	0.4
Other intangible assets	a,b	257.5	114.4	371.9	258.0	183.8	441.8
Property, plant and equipment	b,c,f	1,499.4	(94.5)	1,404.9	1,593.1	(140.7)	1,452.4
Other receivables	b,d	163.9	(111.6)	52.3	147.6	(89.0)	58.6
Deferred tax assets	k	3.0	49.7	52.7	4.9	60.5	65.4
		1,947.8	(64.0)	1,883.8	2,029.0	(10.4)	2,018.6
Current assets							
Inventories		690.8	—	690.8	713.6	—	713.6
Trade and other receivables	b,d,e	501.5	(30.3)	471.2	569.4	(47.2)	522.2
Current tax asset		13.5	—	13.5	11.5	—	11.5
Available for sale assets	e	0.1	0.1	0.2	0.1	0.1	0.2
Cash and cash equivalents		349.5	—	349.5	128.7	—	128.7
Non-current assets held for sale	f	—	1.2	1.2	—	0.7	0.7
		1,555.4	(29.0)	1,526.4	1,423.3	(46.4)	1,376.9
Total assets		3,503.2	(93.0)	3,410.2	3,452.3	(56.8)	3,395.5
LIABILITIES							
Current liabilities							
Short term borrowings and overdrafts	c	(156.5)	(11.2)	(167.7)	(173.1)	(10.7)	(183.8)
Current tax liability		(103.2)	—	(103.2)	(95.1)	—	(95.1)
Trade and other payables	c,e,g,h	(875.6)	154.4	(721.2)	(805.9)	147.0	(658.9)
Provisions		(10.9)	—	(10.9)	(12.2)	0.5	(11.7)
		(1,146.2)	143.2	(1,003.0)	(1,086.3)	136.8	(949.5)
Non-current liabilities							
Borrowings	c,e	(341.6)	(16.1)	(357.7)	(549.8)	(37.3)	(587.1)
Other payables	c,d,e,i	(41.3)	(8.0)	(49.3)	(38.3)	(12.6)	(50.9)
Deferred tax liabilities	k	(150.9)	29.7	(121.2)	(154.5)	17.9	(136.6)
Non-current tax liability		—	—	—	(0.6)	—	(0.6)
Retirement benefit obligations	d	—	(12.0)	(12.0)	—	(37.6)	(37.6)
Provisions		(15.4)	—	(15.4)	(12.3)	—	(12.3)
		(549.2)	(6.4)	(555.6)	(755.5)	(69.6)	(825.1)
Total liabilities		(1,695.4)	136.8	(1,558.6)	(1,841.8)	67.2	(1,774.6)
Net assets		1,807.8	43.8	1,851.6	1,610.5	10.4	1,620.9

34. Explanation of transition to IFRS (group) continued

Reconciliation of equity Group	Note	1st April 2004 2004 under UK GAAP £m	Effect of transition to IFRS £m	2004 under IFRS £m	31st March 2005 2005 under UK GAAP £m	Effect of transition to IFRS £m	2005 under IFRS £m
EQUITY							
Called up share capital		193.9	–	193.9	182.6	–	182.6
Share premium account		0.3	–	0.3	2.3	–	2.3
Capital redemption reserve		15.2	–	15.2	26.5	–	26.5
Hedging reserve	e	–	(0.3)	(0.3)	–	–	–
Fair value reserve	e	–	0.1	0.1	–	0.1	0.1
Translation reserve	j	–	–	–	–	1.4	1.4
Merger reserve		310.8	–	310.8	310.8	–	310.8
Retained earnings	l	1,286.4	44.0	1,330.4	1,087.2	8.9	1,096.1
Equity shareholders' funds		**1,806.6**	**43.8**	**1,850.4**	**1,609.4**	**10.4**	**1,619.8**
Equity minority interests		**1.2**	**–**	**1.2**	**1.1**	**–**	**1.1**
Total equity		**1,807.8**	**43.8**	**1,851.6**	**1,610.5**	**10.4**	**1,620.9**

Notes to the reconciliation of equity

The impact on deferred tax of the adjustments described below is set out in note k.

a. Boots has elected not to apply IFRS 3 to all business combinations that occurred before 1st April 2004, however, goodwill of £22.0m in the opening balance sheet and £25.0m at 31st March 2005 has been reclassified into 'other intangible assets'. This relates to licences that meet the broader definition of intangible assets under IFRS.

b. Capitalised software costs of £92.4m at 1st April 2004 and £158.8m at 31st March 2005, that are not an integral part of the related hardware, have been reclassified as intangible fixed assets. Premiums paid on short term leases of £26.7m at 1st April 2004 and £29.4m at 31st March 2005 have been reclassified as current and non-current receivables.

c. Under UK GAAP, certain leases were classified as operating leases. IFRS makes a number of changes to accounting for leases and as a consequence a number of computer equipment and vehicle leases have been reclassified as finance leases. In addition all property lease incentives have been re-phased.

The effect is to increase property, plant and equipment by £25.8m at 1st April 2004 and by £48.2m at 31st March 2005 and to increase borrowings and overdrafts by £39.4m at 1st April 2004 and by £61.9m at 31st March 2005. The effect is also to increase selling, distribution and store costs by £0.5m, decrease administrative costs by £2.8m and increase financial expenses by £2.4m for the year ended 31st March 2005.

d. Under UK GAAP, defined benefit pension obligations were recognised on a SSAP 24 basis. Under IFRS the net defined benefit pension liability has been recognised on the balance sheet and the SSAP 24 debtor has been removed and the pension prepayment reclassified. Other pension provisions have also been removed. The operating and financing costs of the defined benefit schemes are now recognised in the income statement.

The effect is to increase retirement benefit obligations by £12.0m at 1st April 2004 and £37.6m at 31st March 2005, reduce receivables by £172.0m at 1st April 2004 and £166.9m at 31st March 2005 and to reduce other payables by £6.5m at 1st April 2004 and £7.1m at 31st March 2005. The effect is also to increase selling, distribution and store costs by £12.8m, administrative costs by £6.3m and net financing costs by £17.0m for the year ended 31st March 2005.

e. One previously closed out swap was being amortised under UK GAAP but is written off to reserves in the opening balance sheet, causing an additional financial expense of £1.8m for the year ended 31st March 2005. A second interest rate swap has been included in the opening IFRS balance sheet at mark to market value and the movement in this value up to the point it was closed out has generated an additional financial expense of £0.9m for the year

34. Explanation of transition to IFRS (group) continued

ended 31st March 2005. The impact of the interest rate swaps is to increase receivables by £3.4m, decrease payables by £5.0m and to increase borrowings by £1.7m.

In accordance with IFRSs, available for sale investments and all derivative financial instruments have been recognised as assets or liabilities at fair value. The effect of measuring available for sale investments at fair value is to increase listed investments and fair value reserve by £0.1m at 1st April 2004 and 31st March 2005. Unrealised losses on cash flow hedges have decreased the fair value reserve by £0.3m at 1st April 2004.

f. The group applied IFRS 5 prospectively from 1st April 2004 to its assets held for sale and discontinued operations.

g. Under IAS 10, dividends declared after the balance sheet date are not recognised as a liability. The final dividend of £158.6m for the year ended 31st March 2004 was declared in June 2004 and consequently this has been reversed in the opening balance sheet. The dividend of £150.1m for the year ended 31st March 2005 was declared in July 2005 and has been reversed.

h. The timing of recognition has changed slightly for certain types of fee income received from suppliers in respect of promotional support. The impact is to increase payables by £3.6m at 1st April 2004 and £2.6m at 31st March 2005 and to decrease cost of sales by £1.0m for the year ended 31st March 2005.

i. Pension deficits on overseas schemes already held on the balance sheet have been brought in line with IAS 19 valuations. The impact is to increase other payables by £6.3m at 1st April 2004 and £8.8m at 31st March 2005 and to increase selling, distribution and store costs by £2.5m.

j. Boots has taken the exemption available in IFRS 1 that deems all cumulative translation differences for all foreign operations to be zero at 1st April 2004. Translation differences that arise after 1st April 2004 in respect of all foreign entities are presented as a separate component of equity.

k. The above changes increased/(decreased) the deferred tax balances as follows based on a tax rate of 30%:

Group	1st April 2004 £m	31st March 2005 £m
Adoption of IAS 32/39	0.5	0.4
Finance leases	4.1	4.3
Brands (see below)	25.4	28.8
Fee income	1.1	0.7
Defined benefit pensions	18.6	26.3
Increase in deferred tax asset	49.7	60.5
Defined benefit pensions	34.6	32.7
Adoption of IAS 32/39	(2.6)	(1.7)
Previously revalued assets and brands (see below)	(2.3)	(13.1)
Decrease in deferred tax liability	29.7	17.9

The effect on the income statement for the year ended 31st March 2005 was to decrease the reported tax charge by £11.4m.

For Boots there are three areas of significance where the difference between tax written down value and book value gives rise to additional deferred tax adjustments under IFRS. These are:

- Deferred tax must be provided on previously revalued properties and this results in a deferred tax liability of £26.4m at 1st April 2004 and 31st March 2005.

34. Explanation of transition to IFRS (group) continued

- Revised deferred tax calculations on purchased brands have resulted in an increase to deferred tax assets of £25.4m at 1st April 2004 and £28.8m at 31st March 2005 and a decrease to deferred tax liabilities of £27.8m at 1st April 2004 and £16.6m at 31st March 2005.

- Deferred tax on business combinations gives rise to an additional deferred tax liability of £3.6m at 1st April 2004 and £3.4m at 31st March 2005.

l. The effect of the above adjustments on retained earnings is as follows:

Group	Note	1st April 2004 £m	31st March 2005 £m
Defined benefit pensions	d	(124.3)	(138.5)
Adoption of IAS 32/39	e	4.9	3.0
Deferred tax	k	23.1	15.7
Dividends	g	158.6	150.1
Finance leases and lease incentives	c	(9.5)	(9.4)
Fee income	h	(2.5)	(1.8)
Overseas pensions	i	(6.3)	(8.8)
Reclassification to translation reserve	j	—	(1.4)
Total adjustment to retained earnings		44.0	8.9
Attributable to:			
Equity holders of the parent		44.0	8.9
Minority interest		—	—
		44.0	8.9

Reconciliation of profit for 2005 Group	Note	2005 under UK GAAP £m	Effect of transition to IFRS £m	2005 under IFRS £m
Continuing operations				
Revenue		4,935.5	—	4,935.5
Cost of sales	h	(2,810.2)	1.0	(2,809.2)
Gross profit		2,125.3	1.0	2,126.3
Selling, distribution and store costs	c,d,i	(1,502.8)	(11.2)	(1,514.0)
Administrative costs	c,d	(202.0)	(2.8)	(204.8)
Other operating income		(4.3)	9.2	4.9
Other operating expenses		—	(11.5)	(11.5)
Group operating profit before finance costs		416.2	(15.3)	400.9
Financial income		10.1	143.2	153.3
Financial expenses		(29.0)	(165.2)	(194.2)
Net finance costs	c,d,e	(18.9)	(22.0)	(40.9)
Profit before taxation		397.3	(37.3)	360.0
Income tax expense	k	(116.4)	11.4	(105.0)
Profit after taxation from continuing operations		280.9	(25.9)	255.0
Discontinued operations				
Profit from discontinued operations	d,i,k	22.0	(10.6)	11.4
Profit for the year		302.9	(36.5)	266.4
Attributable to:				
Equity holders of the parent		302.4	(36.5)	265.9
Minority interest		0.5	—	0.5
		302.9	(36.5)	266.4

34. Explanation of transition to IFRS (group) continued

Explanation of material adjustments to the cash flow statement for 2005

Current asset investments of £19.3m comprising deposits repayable on demand were classified as liquid resources under UK GAAP and are reclassified to cash and cash equivalents under IFRS. There are no other material differences between the cash flow statement presented under IFRS compared to that presented under UK GAAP.

34. Explanation of transition to IFRS (company)

		1st April 2004			31st March 2005		
Reconciliation of equity Company	Note	2004 under UK GAAP £m	Effect of transition to IFRS £m	2004 under IFRS £m	2005 under UK GAAP £m	Effect of transition to IFRS £m	2005 under IFRS £m
ASSETS							
Non-current assets							
Investments	a	1,106.7	3,021.3	4,128.0	2,103.6	3,021.3	5,124.9
Other receivables		502.6	—	502.6	—	—	—
Deferred tax assets	b	—	—	—	—	0.4	0.4
		1,609.3	3,021.3	4,630.6	2,103.6	3,021.7	5,125.3
Current assets							
Trade and other receivables	c	1,196.2	(1,000.0)	196.2	1,712.0	(1,000.0)	712.0
Current tax asset		9.1	—	9.1	9.4	—	9.4
Cash and cash equivalents		223.0	—	223.0	27.7	—	27.7
		1,428.3	(1,000.0)	428.3	1,749.1	(1,000.0)	749.1
Total assets		3,037.6	2,021.3	5,058.9	3,852.7	2,021.7	5,874.4
LIABILITIES							
Current liabilities							
Short term borrowings and overdrafts		(141.9)	—	(141.9)	(110.2)	—	(110.2)
Trade and other payables	c	(313.3)	158.6	(154.7)	(1,040.3)	150.1	(890.2)
		(455.2)	158.6	(296.6)	(1,150.5)	150.1	(1,000.4)
Non-current liabilities							
Borrowings	b	(308.8)	1.6	(307.2)	(540.5)	2.8	(537.7)
Deferred tax liabilities	b	—	—	—	—	(0.4)	(0.4)
Other payables		(560.8)	—	(560.8)	(0.5)	—	(0.5)
		(869.6)	1.6	(868.0)	(541.0)	2.4	(538.6)
Total liabilities		(1,324.8)	160.2	(1,164.6)	(1,691.5)	152.5	(1,539.0)
Net assets		1,712.8	2,181.5	3,894.3	2,161.2	2,174.2	4,335.4
EQUITY							
Called up share capital		193.9	—	193.9	182.6	—	182.6
Share premium account		0.3	—	0.3	2.3	—	2.3
Capital redemption reserve		15.2	—	15.2	26.5	—	26.5
Merger reserve	a	—	3,080.2	3,080.2	—	3,080.2	3,080.2
Retained earnings		1,503.4	(898.7)	604.7	1,949.8	(906.0)	1,043.8
Equity shareholders' funds		1,712.8	2,181.5	3,894.3	2,161.2	2,174.2	4,335.4

34. Explanation of transition to IFRS (company) continued

Notes to the reconciliation of equity

a. Under IAS 27, investments are required to be stated initially at fair value and any dividends paid out of pre-acquisition reserves deducted from the cost of the investment. Investments in subsidiaries have been increased by £3,021.3m at 1st April 2004 and 31st March 2005 and a non-distributable merger reserve of £3,080.2m has been created.

b. Amortisation of the premium on the Eurobond has resulted in a decrease to financial expenses of £1.3m and a reduction in borrowings of £1.6m at 1st April 2004 and £2.8m at 31st March 2005. Deferred tax on these adjustments has resulted in a deferred tax asset of £0.4m and a deferred tax liability of £0.4m at 31st March 2005.

c. Under IAS 10, dividends declared after the balance sheet date are not recognised as a liability. The final dividend of £158.6m for the year ended 31st March 2004 was declared in June 2004 and consequently this has been reversed in the opening balance sheet. The dividend of £150.1m for the year ended 31st March 2005 was declared in July 2005 and has been reversed. Intra-group dividends receivable of £1,000m for the years ended 31st March 2004 and 31st March 2005 have also been reversed.

Significant investments in subsidiaries

Company	Principal activities	Percentage held by company	Percentage held by subsidiary undertakings
Boots Group PLC	Investing		
Subsidiary undertakings (incorporated in Great Britain)			
The Boots Company PLC	Manufacturing, marketing and distribution of healthcare and consumer products	100%	
Boots The Chemists Ltd	Retail chemists		100%
Boots Opticians Ltd	Provision of opticians services		100%
Boots Beauty International Ltd	Sale of Boots branded products worldwide		100%
Boots Properties Ltd	Property holding company		100%

Percentage relates to holding of ordinary share capital.

PART VIII

HISTORICAL FINANCIAL INFORMATION RELATING TO THE ALLIANCE UNICHEM GROUP

Extracts from Audited Financial Statements for the Three Years Ended 31 December 2005

For the year ended 31 December 2005, Alliance UniChem was required for the first time to prepare consolidated financial statements under IFRS.

For the years ended 31 December 2003 and 31 December 2004, Alliance UniChem prepared consolidated financial statements under the historical cost convention in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP).

For the year ended 31 December 2005, no material adjustment to the financial statements of the Alliance UniChem Group is required to achieve consistency with the accounting policies of the Boots Group. For the two years ended 31 December 2003 and 31 December 2004 a reconciliation of the UK GAAP accounting policies is included in page 276.

The audited consolidated financial statements (prepared under UK GAAP) of Alliance UniChem for the two years ended 31 December 2004 and the audited consolidated financial statements (prepared under IFRS) of Alliance UniChem for the year ended 31 December 2005, in each case as included in the Annual Report for the respective year, together with the audit reports thereon prepared by Deloitte & Touche LLP of 1 Stonecutter Street, London, EC4A 4TR, Chartered Accountants, (who are members of and regulated by the Institute of Chartered Accountants of England and Wales) are set out in this Part VIII.

The auditors reports of Deloitte & Touche LLP for each of the three years ended 31 December 2003, 2004 and 2005 was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act.

In this Part VIII only the term “the Company” refers to Alliance UniChem and the term “the Group” refers to the Alliance UniChem Group.

Deloitte.

Independent auditors' report
to the members of Alliance UniChem Plc

Introduction

We have audited the Group financial statements (the "financial statements") of Alliance UniChem Plc for the year ended 31 December 2005 which comprise the Group income statement, the Group statement of recognised income and expense, Reconciliation of movements in total equity, the Group balance sheet, the Group cash flow statement, and the related notes 1 to 50. These financial statements have been prepared under the accounting policies set out therein.

The Board report on corporate governance and the Board report on remuneration are included in the individual Company annual report of Alliance UniChem Plc for the year ended 31 December 2005. We have reported separately on the individual Company financial statements of Alliance UniChem Plc for the year ended 31 December 2005 and on the information in the Board report on remuneration in the individual Company annual report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted for use in the European Union are set out in the Directors' responsibilities statement.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant framework and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Board report on corporate governance reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Report of the Directors and other information contained in the annual report for the above year as described in the contents section, and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with those International Financial Reporting Standards as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended; and

- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRS

As explained in note 2, the Group in addition to complying with its legal obligation to apply those IFRSs adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
28 February 2006

Group income statement
for the year ended 31 December 2005

	Note	2005 £million	2004 £million
Revenue including share of associates' revenue		**11,136.5**	10,605.9
Less: share of associates' revenue		**(1,965.3)**	(1,707.5)
Revenue	4	**9,171.2**	8,898.4
Operating profit including share of associates' operating profit		**331.8**	289.7
Less: share of associates' operating profit		**(70.8)**	(46.1)
Operating profit	5	**261.0**	243.6
Costs in relation to proposed merger		**(3.8)**	—
Share of associates' post tax earnings	6	**45.3**	34.0
Profit on disposal of businesses	7	**7.8**	19.2
Profit on disposal of/(amounts written off) investments	8	**2.1**	(1.9)
Profit from operations	4,9	**312.4**	294.9
Finance income	11	**13.2**	8.0
Finance costs	12	**(46.7)**	(49.9)
Profit before tax		**278.9**	253.0
Tax	13	**(67.6)**	(65.3)
Profit for the year		**211.3**	187.7
Attributable to:			
Equity shareholders		**210.7**	187.3
Minority interests		**0.6**	0.4
		211.3	187.7
Earnings per share	15		
Basic		**58.9p**	53.4p
Diluted		**58.3p**	52.8p

All activities relate to continuing operations.

Group statement of recognised income and expense
for the year ended 31 December 2005

	Note	2005 £million	2004 £million
Currency net investments			
— currency translation differences		**(5.8)**	8.8
— related deferred tax charge		**—**	(0.3)
— currency translation differences on minority interests		**(0.1)**	0.1
Defined benefit pension schemes			
— actuarial loss	33	**(18.8)**	(7.9)
— related deferred tax credit		**6.0**	2.6
Net gains on cash flow and net investment hedges			
— fair value change deferred in equity		**15.3**	—
— related deferred tax credit		**0.3**	—
— transferred to income statement (net of tax)		**4.9**	—
Available-for-sale investments			
— gains on revaluation deferred in equity		**9.7**	—
— related deferred tax charge		**(0.8)**	—
— transferred to income statement		**(2.1)**	—
Income and expense recognised directly in equity		**8.6**	3.3
Profit for the year		**211.3**	187.7
Total recognised income and expense for the year		**219.9**	191.0
Attributable to:			
Equity shareholders		**219.4**	190.5
Minority interests		**0.5**	0.5
		219.9	191.0

Reconciliation of movements in total equity

for the year ended 31 December 2005

	Share capital £million	Share premium £million	Shares to be issued £million	Employee share trusts £million	Retained earnings £million	Hedging, translation and other reserves £million	Attributable to equity holders of the parent £million	Minority interest £million	Total equity £million
At 1 January 2004	35.1	444.2	25.1	(23.1)	393.0	2.6	876.9	10.5	887.4
Total recognised income and expense for the year	—	—	—	—	182.0	8.5	190.5	0.5	191.0
Share-based compensation									
— charged to income statement	—	—	—	—	2.2	—	2.2	—	2.2
— deferred tax credit	—	—	—	—	0.5	—	0.5	—	0.5
Utilisation of accrual for long-term incentive plan	—	—	—	—	2.5	—	2.5	—	2.5
Dividends paid	—	—	—	—	(59.6)	—	(59.6)	(0.1)	(59.7)
Shares issued									
— businesses acquired	0.2	12.2	(12.4)	—	—	—	—	—	—
— share options exercised	0.1	1.8	—	—	—	—	1.9	—	1.9
— dividends	0.4	27.5	—	—	—	—	27.9	—	27.9
Decrease in estimate of shares to be issued on acquisitions	—	—	(12.7)	—	—	—	(12.7)	—	(12.7)
Proceeds from own shares sold	—	—	—	10.0	0.3	—	10.3	—	10.3
Minority interests acquired	—	—	—	—	—	—	—	(0.5)	(0.5)
Transfer to retained earnings	—	—	—	—	(0.1)	0.1	—	—	—
At 31 December 2004	**35.8**	**485.7**	**—**	**(13.1)**	**520.8**	**11.2**	**1,040.4**	**10.4**	**1,050.8**
IAS 39 adjustment at 1 January 2005	**—**	**—**	**—**	**—**	**(8.9)**	**(3.2)**	**(12.1)**	**—**	**(12.1)**
At 1 January 2005	**35.8**	**485.7**	**—**	**(13.1)**	**511.9**	**8.0**	**1,028.3**	**10.4**	**1,038.7**
Total recognised income and expense for the year	**—**	**—**	**—**	**—**	**197.9**	**21.5**	**219.4**	**0.5**	**219.9**
Share-based compensation									
— charged to income statement	**—**	**—**	**—**	**—**	**5.3**	**—**	**5.3**	**—**	**5.3**
Dividends paid	**—**	**—**	**—**	**—**	**(68.4)**	**—**	**(68.4)**	**(0.3)**	**(68.7)**
Shares issued									
— share options exercised	**0.1**	**2.0**	**—**	**—**	**—**	**—**	**2.1**	**—**	**2.1**
— dividends	**0.3**	**21.7**	**—**	**—**	**—**	**—**	**22.0**	**—**	**22.0**
Fair value of option to acquire minority interests	**—**	**—**	**—**	**—**	**—**	**(4.3)**	**(4.3)**	**—**	**(4.3)**
Net cost of own shares purchased	**—**	**—**	**—**	**(32.0)**	**1.4**	**—**	**(30.6)**	**—**	**(30.6)**
Minority interests in businesses acquired	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**0.4**	**0.4**
At 31 December 2005	**36.2**	**509.4**	**—**	**(45.1)**	**648.1**	**25.2**	**1,173.8**	**11.0**	**1,184.8**

Group balance sheet
as at 31 December 2005

	Note	2005 £million	2004 £million
Assets			
Non-current assets			
Goodwill	16	**232.1**	175.6
Intangible assets	17	**819.3**	715.4
Property, plant and equipment	19	**350.0**	306.0
Investments in associates	21	**394.5**	332.4
Loans to associates		**—**	42.5
Other investments	22	**—**	42.6
Available-for-sale investments	23	**48.4**	—
Deferred tax assets	32	**9.2**	7.8
Trade and other receivables	25	**27.2**	40.2
Derivative financial instruments	30	**3.5**	—
		1,884.2	1,662.5
Current assets			
Inventories	24	**670.5**	692.2
Securitised receivables		**—**	456.1
Non-recourse receipts		**—**	(400.8)
Net securitised receivables		**—**	55.3
Trade and other receivables	25	**1,424.7**	1,027.1
Cash and cash equivalents	26,28	**133.5**	101.9
Derivative financial instruments	30	**0.6**	—
		2,229.3	1,876.5
Non-current assets classified as held for sale	27	**—**	1.7
Total assets		**4,113.5**	3,540.7
Liabilities			
Current liabilities			
Financial liabilities			
— borrowings	28	**(216.4)**	(175.7)
— financing linked to securitisation	29	**(289.4)**	—
Derivative financial instruments	30	**(12.2)**	—
Trade and other payables	31	**(1,383.5)**	(1,383.3)
Current corporate tax liabilities		**(42.6)**	(37.5)
		(1,944.1)	(1,596.5)
Net current assets		**285.2**	280.0
Non-current liabilities			
Financial liabilities			
— borrowings	28	**(605.2)**	(732.0)
— financing linked to securitisation	29	**(103.3)**	—
Derivative financial instruments	30	**(83.4)**	—
Deferred tax liabilities	32	**(123.6)**	(108.4)
Retirement benefit obligations	33	**(69.1)**	(53.0)
		(984.6)	(893.4)
Net assets		**1,184.8**	1,050.8
Equity			
Share capital	34	**36.2**	35.8
Share premium	35	**509.4**	485.7
Employee share trusts	36	**(45.1)**	(13.1)
Retained earnings	37	**648.1**	520.8
Translation reserve	38	**2.7**	8.5
Hedging reserve	38	**13.8**	—
Available-for-sale revaluation reserve	38	**10.3**	—
Other reserves	38	**(1.6)**	2.7
Shareholders' equity		**1,173.8**	1,040.4
Minority interests		**11.0**	10.4
Total equity		**1,184.8**	1,050.8

The financial statements and related notes on pages 141 to 144 were approved by the Board of Directors on 28 February 2006 and were signed on its behalf by:

I. K. Meakins
G. R. Fairweather
Directors

Group cash flow statement

for the year ended 31 December 2005

	Note	2005 £million	2004 £million
Cash generated by operations	39a	**275.1**	311.1
Tax paid		**(59.2)**	(49.0)
Interest paid		**(45.2)**	(52.9)
Net cash from operating activities		**170.7**	209.2
Net cash used in investing activities	39b	**(45.1)**	(149.2)
Net cash (used in)/from financing activities	39c	**(162.2)**	0.9
Net (decrease)/increase in cash and cash equivalents in the year		**(36.6)**	60.9
Cash and cash equivalents at 1 January		**19.8**	(38.8)
Currency translation differences		**6.0**	(2.3)
Cash and cash equivalents at 31 December		**(10.8)**	19.8

Set out below is a reconciliation of the net (decrease)/increase in cash and cash equivalents to the decrease in net borrowings. Net borrowings are defined by the Group as borrowings net of cash and cash equivalents and derivative financial instruments.

	Note	2005 £million	2004 £million
(Decrease)/increase in cash and cash equivalents		**(36.6)**	60.9
Cash and cash equivalents outflow/(inflow) from decrease/(increase) in debt and lease financing	39d	**87.0**	(20.6)
Decrease in net borrowings resulting from cash flows		**50.4**	40.3
Borrowings acquired with businesses		**(38.8)**	—
Finance leases entered into		**—**	(9.1)
Loan notes issued for non-cash consideration		**—**	(0.7)
		11.6	30.5
Currency translation differences and fair value adjustments on financial instruments		**36.9**	(9.9)
Decrease in net borrowings in the year		**48.5**	20.6
Net borrowings at 1 January		**(805.8)**	(826.4)
IAS 39 adjustment at 1 January 2005	2	**(22.3)**	—
Net borrowings at 31 December	40	**(779.6)**	(805.8)

Notes to the financial statements
for the year ended 31 December 2005

(1) GENERAL INFORMATION

Alliance UniChem Plc is a public company incorporated in the United Kingdom. The address of its registered office is disclosed in the Shareholder information section of the annual report. The principal activities of the Company and its subsidiaries are described in note 4.

(2) ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time. The disclosures required by IFRS in relation to the transition from UK GAAP to IFRS are provided in note 50. The financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The Group has taken the exemption permitted by IFRS 1 to apply IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" from 1 January 2005.

These financial statements have been prepared in accordance with relevant IFRS and IFRIC interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. IFRS 1 "First-time Adoption of International Financial Reporting Standards" has been applied in preparing these financial statements. The financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investments and any financial assets and liabilities that are held for trading.

First time adoption

IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the procedures to be followed when IFRS is adopted for the first time. The Group is required to determine its IFRS accounting policies and apply these retrospectively to determine its opening balance sheet under IFRS. The standard allows a number of exceptions to this general principle to assist companies as they transition to reporting under IFRS.

The Group has chosen the following options:

- Business combinations: Business combinations prior to the opening balance sheet date (1 January 2004) have not been restated.

- Employee benefits: All actuarial gains and losses arising on defined benefit pensions schemes have been recognised in equity at the transition date. This is to maintain consistency with the treatment under FRS 17 and the policy going forward of taking actuarial gains and losses directly to reserves via the statement of recognised income and expense.

- Share-based payments: Only equity instruments granted after 7 November 2002 that had not vested prior to 1 January 2005 have been included in the charge to income.

- Cumulative translation differences: One of the requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates" is that, on disposal of an operation, the cumulative amount of exchange differences previously recognised directly in equity for that foreign operation is to be transferred to the income statement as part of the profit or loss on disposal. The Group has adopted the exemption allowing these cumulative translation differences to be reset to zero at the transition date.

(2) ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

First time adoption (continued)

- IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement": Comparatives have not been restated for IAS 32 and IAS 39. As a result, the figures for 2004 comparatives are presented under the previously reported UK GAAP basis. 2005 figures reflect the adoption of IAS 32 and IAS 39 from 1 January 2005. The adjustments required to the opening balance sheet at 1 January 2005 are:
  - Derivative financial instruments are recognised in the balance sheet at their fair value as financial assets or liabilities and reported separately. The carrying values of borrowings held by the Group which are designated within an effective fair value hedge relationship are also adjusted to reflect movements associated with the hedged risks. The net effect of these adjustments at 1 January 2005 was to reduce equity by £15.6 million due to the recognition of additional financial liabilities of £22.3 million, partially offset by related deferred taxation of £6.7 million; and
  - Other investments are categorised as available-for-sale and recorded at fair value. The effect of this at 1 January 2005 was to increase equity by £3.5 million due to an increase in the carrying value of these investments of £3.9 million, partially offset by the related deferred taxation liability of £0.4 million.

The combined effect of these adjustments was to reduce shareholders equity by £12.1 million at 1 January 2005, as shown in the Reconciliation of movements in total equity statement.

Early adoption

The Group has applied IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" from 1 January 2004 and has elected to early adopt the option offered by the amendment to IAS 19 "Employee Benefits" allowing actuarial gains and losses to be taken directly to reserves via the statement of recognised income and expense.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of the disposal, as appropriate.

An associate is an entity over which the Group, either directly or indirectly, is in a position to exercise significant influence by participating in, but not controlling, the financial and operating policies of the entity. Associates are accounted for using the equity method. Losses of an associate in excess of the Group's interest in the associate are not recognised, except to the extent that the Group has incurred obligations in respect of the associate. Unrealised profits and losses recognised by the Group on transactions with an associate are eliminated to the extent of the Group's interest in the associate concerned.

All intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Currency translation

At entity level, transactions denominated in currencies other than the entity's functional currency are translated into the entity's functional currency at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling on the balance sheet date with any currency translation differences recognised in the income statement.

(2) ACCOUNTING POLICIES (CONTINUED)

Currency translation (continued)

The Group's presentation currency is Sterling. On consolidation, the results of entities whose functional currency is other than Sterling are translated into Sterling at the average exchange rate for the year. The assets and liabilities of entities whose functional currency is other than Sterling are translated into Sterling at the exchange rate ruling on the balance sheet date. Currency translation differences are recognised in the currency translation reserve.

The results, assets and liabilities of entities operating in hyper-inflationary economies are adjusted to reflect current price levels before translation, taking any gain or loss on the net monetary position through the income statement.

Revenue recognition

Revenue shown on the face of the income statement is the amount derived from the sale of goods in the normal course of business outside the Group, net of trade discounts, value added tax and other sales-related taxes. Revenue is recognised at the point at which title passes.

Interest and investment income is recognised separately under finance income on the face of the income statement.

Goodwill and intangible assets

(a) Goodwill

Goodwill represents the excess of the fair value of cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary or associate at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, and any impairment arising is recognised in the income statement. Gains and losses on the disposal of a business include the carrying amount of goodwill relating to the business sold. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated.

(b) Intangible assets — retail pharmacy licences

Retail pharmacy licences, being the exclusive right to be reimbursed for the dispensing of prescription medicines from a specified location, are capitalised where there is an asset that can be separated from other identifiable assets that together form a retail pharmacy business. Where they have a finite economic life, they are amortised over that economic life. Where they do not have a finite economic life, they are not amortised and are subjected to an annual impairment test, and any impairment arising is recognised in the income statement. The cost of retail pharmacy licences less any impairment and amortisation is included in intangible fixed assets.

(c) Intangible assets — computer software

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset. Amortisation is provided on a straight-line basis so as to charge the cost of the software to the income statement over its expected useful life, which does not exceed five years.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any provision for impairment. Depreciation is calculated to write down the cost of these assets to their estimated residual values on a straight-line basis over the period of their estimated useful economic lives:

Freehold buildings	- 50 years
Long and short leasehold properties	- the shorter of the period of the lease and 50 years
Furniture, fittings, plant and equipment	- between three and ten years
Vehicles	- between three and ten years

(2) ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Freehold land is not depreciated.

Residual values and useful lives are reviewed at each balance sheet date and adjusted where appropriate.

Taxation

Current tax is the amount payable or recoverable in respect of the taxable profit or loss for the year.

Deferred tax is provided in full, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax is provided on temporary differences arising on investment in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable the temporary difference will not reverse in the foreseeable future.

Tax relating to items recognised directly in equity is recognised in equity, not in the income statement.

Impairment of tangible assets, intangible fixed assets and goodwill

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (referred to as cash-generating units).

Cash and cash equivalents

In the cash flow statement, cash and cash equivalents includes cash at bank and cash in hand, short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Inventories

Inventories consist of goods held for resale and are valued at the lower of cost and net realisable value.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is met only when the asset is available for immediate sale in its present condition and the sale is highly probable within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

(2) ACCOUNTING POLICIES (CONTINUED)

Other investments/Available-for-sale investments

To 31 December 2004:

Other investments comprise listed and unlisted investments in companies other than subsidiaries and associates. Other investments are recorded at cost less provisions for impairment.

From 1 January 2005:

The Group classifies its listed and unlisted investments as available-for-sale financial assets which are measured at fair value and accounted for on a settlement date basis. The fair values of quoted investments are based on current bid prices and for investments where there is no quoted market price, fair value is determined by using valuation techniques, such as estimated discounted cash flows or by reference to the current market value of similar investments. Gains and losses arising from changes in the fair values are recognised in equity until the investment is either disposed of or derecognised.

Derivative financial instruments

Derivative financial instruments utilised by the Group include interest rate swaps, foreign currency swaps, interest rate caps and forward exchange contracts. These derivative financial instruments are used to manage the foreign currency and interest rate risk of the Group's borrowings and investments.

To 31 December 2004:

The Group has used derivative financial instruments to hedge its exposures to fluctuations in interest and foreign exchange rates. Instruments accounted for as hedges were structured so as to reduce the market risk associated with the underlying transaction being hedged. If the underlying transaction being hedged ceased to exist, the hedge was typically cancelled and the profit or loss recognised in the income statement immediately.

Receipts and payments on interest rate instruments were recognised on an accruals basis over the life of the instrument. Foreign exchange contracts hedging balance sheet assets and liabilities were revalued at closing rates and exchange differences arising were taken to the statement of recognised income and expense. Gains and losses on contracts hedging foreign currency forecast transactional cash flows were recognised in the hedged periods.

Cash flows associated with derivative financial instruments were classified in the cash flow statement in a manner consistent with those of the transaction being hedged. Finance costs associated with debt issuances were charged to the income statement over the life of the issue.

From 1 January 2005:

Derivative financial instruments are designated as hedges in line with the Group's risk management policies. Derivatives are measured at fair value. The accounting treatment is determined by the type of hedge relationship adopted and falls into the following categories:

- Fair value hedges — gains and losses on the derivative instrument are recognised in the income statement and the carrying value of the hedged item is adjusted to reflect movements associated with the hedged risks where the relationship is assessed to be effective. Where there is hedge accounting ineffectiveness the gain or loss on the derivative is recognised immediately in the income statement and the underlying hedged item is recognised at amortised cost with no adjustment to the carrying value permitted.

- Cash flow hedges — gains and losses on the derivative instrument are recognised in equity where the relationship is assessed to be effective. Gains and losses deferred in equity are recycled through the income statement at the time that the hedged item is recognised in the income statement. Where there is hedge accounting ineffectiveness, the gain or loss arising

(2) ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments (continued)

since the date the relationship was last assessed to be effective is recognised immediately in the income statement. Any gains and losses deferred in equity continue to be deferred in equity until the forecast transaction occurs.

- Net investment hedges — gains and losses on the derivative instrument are recognised in equity where the relationship is assessed to be effective. Gains and losses deferred in equity are recycled through the income statement at the time that the hedged item is recognised in the income statement. Where there is hedge accounting ineffectiveness, the gain or loss arising since the date the relationship was last assessed to be effective is recognised immediately in the income statement. Any gains and losses deferred in equity continue to be deferred in equity until the forecast transaction occurs.

Those derivatives which are not designated as hedges are classified as held-for-trading and gains and losses on the derivative financial instrument are recognised immediately in the income statement.

Borrowings held by the Group are measured at amortised cost except where the underlying transaction is designated within an effective fair value hedge relationship. In these cases the carrying value is adjusted to reflect movements associated with the hedged risks.

Leases

Leases of property, plant and equipment are classified as finance leases where the Group has substantially all the risks and rewards of ownership. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and the finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are classified as borrowings within financial liabilities. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Rentals under operating leases are charged to the income statement on a straight-line basis over the lease term.

Employee benefits

(a) Pension obligations

Defined benefit plans:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations obtained at least triennially and updated on the balance sheet date. Actuarial gains and losses are recognised in full in the year in which they occur and are recognised outside the income statement in the statement of recognised income and expense. Past service cost is recognised immediately to the extent that the benefits are already vested, otherwise it is amortised on a straight-line basis over the average period until the benefits become vested. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Defined contribution plans:

The cost represents the Group's contributions to the plans that are charged to the income statement in the period in which they fall due.

(2) ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

(b) Share-based compensation

Share options granted before 7 November 2002 and vested before 1 January 2005:

No expense is recognised in respect of the options granted under the savings related and discretionary share option schemes. In respect of the long-term incentive plan, the fair value of the employee services received in exchange for the grant is recognised as an expense.

Share options granted after 7 November 2002 and vested after 1 January 2005:

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises estimates of the number of options that are expected to become exercisable, and the impact of the revision of original estimates is recognised, if any, in the income statement and a corresponding adjustment is made to equity.

Share capital and share premium

Ordinary shares are classified as equity.

Own shares held by the Company's employee share trusts are deducted at cost from equity.

(3) EXCHANGE RATES

The significant exchange rates relative to Sterling used in the preparation of the financial statements are as follows:

	Average		Year end	
	2005	2004	**2005**	2004
Euro	**1.460**	1.475	**1.452**	1.413
Czech Koruna	**43.63**	47.20	**42.27**	42.93
Norwegian Kroner	**11.71**	12.38	**11.60**	11.64
Swiss Franc	**2.260**	2.279	**2.260**	2.185
Turkish Lira			**2.320**	2.596
US Dollar	**1.830**	1.825	**1.719**	1.916

(4) SEGMENTAL ANALYSIS

Primary segments — nature of operations

The principal activity of the Group is to operate as wholesalers and retailers of pharmaceutical, medical and healthcare products. The Group considers its primary segments to be Wholesale and Retail. Trading between segments is carried out on an arms length basis and transactions are priced accordingly.

(4) SEGMENTAL ANALYSIS (CONTINUED)

Primary segments — nature of operations (continued)

The primary segment results were as follows:

	Revenue 2005 £million	Revenue 2004 £million	Profit from operations 2005 £million	Profit from operations 2004 £million
Wholesale — before profit on disposal of businesses	**8,687.3**	8,536.8	**169.6**	166.5
— profit on disposal of businesses	**—**	—	**2.9**	19.2
Wholesale	**8,687.3**	8,536.8	**172.5**	185.7
Retail — before profit on disposal of businesses	**1,337.3**	1,222.6	**112.9**	95.3
— profit on disposal of businesses	**—**	—	**0.4**	—
Retail	**1,337.3**	1,222.6	**113.3**	95.3
Corporate — before costs in relation to proposed merger	**—**	—	**(21.5)**	(18.2)
— costs in relation to proposed merger	**—**	—	**(3.8)**	—
Corporate	**—**	—	**(25.3)**	(18.2)
Intra-group	**(853.4)**	(861.0)	**—**	—
Share of associates' post tax earnings	**—**	—	**45.3**	34.0
Profit on disposal of associate businesses	**—**	—	**4.5**	—
Profit on disposal of/(amounts written off) investments	**—**	—	**2.1**	(1.9)
	9,171.2	8,898.4	**312.4**	294.9

The primary segment assets and liabilities were as follows:

	2005 Assets £million	2005 Liabilities £million	2005 Total £million	2004 Assets £million	2004 Liabilities £million	2004 Total £million
Wholesale	**2,361.9**	**(1,300.0)**	**1,061.9**	2,407.8	(1,314.6)	1,093.2
Retail	**1,195.0**	**(65.8)**	**1,129.2**	1,029.0	(50.9)	978.1
Corporate	**10.0**	**(17.7)**	**(7.7)**	13.7	(17.8)	(4.1)
Net operating assets	**3,566.9**	**(1,383.5)**	**2,183.4**	3,450.5	(1,383.3)	2,067.2
Investments in and loans to associates			**394.5**			374.9
Tax			**(151.7)**			(131.7)
Financing linked to securitisation/non-recourse receipts			**(392.7)**			(400.8)
Net borrowings			**(779.6)**			(805.8)
Retirement benefit obligations			**(69.1)**			(53.0)
			1,184.8			1,050.8

Other segmental information in respect of the primary segments was as follows:

	Capital expenditure: Property, plant and equipment £million	Capital expenditure: Intangible fixed assets £million	Depreciation £million	Amortisation of intangible fixed assets £million
Year ended 31 December 2005				
Wholesale	**37.7**	**13.3**	**24.2**	**2.5**
Retail	**29.1**	**2.4**	**13.9**	**0.4**
Corporate	**0.7**	**—**	**0.6**	**—**
	67.5	**15.7**	**38.7**	**2.9**

(4) SEGMENTAL ANALYSIS (CONTINUED)

Primary segments — nature of operations (continued)

	Capital expenditure: Property, plant and equipment £million	Capital expenditure: Intangible fixed assets £million	Depreciation £million	Amortisation of intangible fixed assets £million
Year ended 31 December 2004				
Wholesale	31.8	11.9	24.7	4.0
Retail	28.1	3.8	11.3	1.3
Corporate	1.0	—	0.4	0.1
	60.9	15.7	36.4	5.4

Secondary segments — geographical

The Group considers its secondary segments to be the countries in which it operates. The secondary segment financial information was as follows:

	Revenue		**Segment assets**		**Capital expenditure**	
	2005 £million	2004 £million	**2005 £million**	2004 £million	**2005 £million**	2004 £million
UK	**2,177.4**	2,117.7	**1,513.8**	1,384.6	**44.9**	48.7
The Netherlands	**702.8**	677.8	**391.3**	381.8	**2.2**	1.6
France	**3,790.7**	3,640.1	**884.1**	848.2	**22.4**	13.0
Italy	**941.2**	927.6	**454.0**	466.8	**6.4**	5.7
Spain	**917.7**	790.2	**238.1**	179.5	**2.3**	2.7
Other	**688.2**	790.4	**85.6**	189.6	**5.0**	4.9
Intra-group	**(46.8)**	(45.4)	**—**	—	**—**	—
	9,171.2	8,898.4	**3,566.9**	3,450.5	**83.2**	76.6

With the exception of the UK, The Netherlands, France, Italy and Spain, no other individual country contributed more than 10% of consolidated revenue or assets.

(5) OPERATING PROFIT

	2005 £million	2004 £million
Revenue	**9,171.2**	8,898.4
Cost of sales	**(8,189.3)**	(8,014.0)
Gross profit	**981.9**	884.4
Administrative expenses	**(720.9)**	(640.8)
	261.0	243.6

Distribution expenses are considered to be a component of cost of sales, due to the nature of the Group's business and as such, are not separately disclosed.

(6) ASSOCIATES

The analysis of the Group's share of associates' post tax earnings was as follows:

	2005 £million	2004 £million
Profit from operations	**70.8**	46.1
Finance income	**0.8**	6.4
Finance costs	**(6.6)**	(4.6)
Tax	**(19.8)**	(14.2)
Minority interests	**0.1**	0.3
	45.3	34.0

(7) PROFIT ON DISPOSAL OF BUSINESSES

During the year the Group disposed of its 50% direct interest in the ordinary share capital of GaleniCare S.A., its 20% direct interest in the Swiss part of Alloga S.A., 51% of its interest in Alliance UniChem Farmacêutica S.A. and a number of minor interests. The net profit on these disposals was £7.8 million before tax.

The profit on disposal in the comparative year related to the disposal of a number of non-core businesses within the UK wholesale operations.

(8) PROFIT ON DISPOSAL OF/(AMOUNTS WRITTEN OFF) INVESTMENTS

During the year the Group disposed of its investment in Sanacorp Pharmahandel A.G..

The amounts written off investments in the comparative year related to the Group's residual US investment in a central dispensing business.

(9) PROFIT FROM OPERATIONS

The following items have been included in arriving at profit from operations:

	2005 £million	2004 £million
Cost of inventories recognised as an expense	**8,189.3**	8,014.0
Depreciation of property, plant and equipment		
— owned assets	**37.7**	35.6
— held under finance leases	**1.0**	0.8
Amortisation of intangible fixed assets	**2.9**	5.4
(Profit)/loss on disposal of property, plant and equipment	**(1.0)**	0.4
Auditors' remuneration for audit services		
— principal auditor	**1.4**	1.5
— other auditors	**0.1**	0.1

Auditors' remuneration includes £0.1 million (2004 £0.1 million) for the audit of the Company.

An analysis of the total remuneration paid to the auditors and other accountancy firms is provided below:

	Principal auditor		Other auditors		Other accountancy firms	
	2005 £million	2004 £million	2005 £million	2004 £million	2005 £million	2004 £million
Audit	**1.4**	1.5	**0.1**	0.1	**—**	—
Taxation services	**0.1**	0.1	**—**	—	**0.5**	0.9
Other assurance services including due diligence	**0.7**	0.1	**—**	—	**1.3**	0.4
Consulting	**—**	0.1	**—**	—	**0.7**	0.2
	2.2	1.8	**0.1**	0.1	**2.5**	1.5

(10) STAFF COSTS

The average monthly number of persons employed by the Group, including Directors and part-time staff, was:

	2005 Number	2004 Number
Wholesale	**12,257**	12,233
Retail	**11,279**	10,371
Corporate	**88**	87
	23,624	22,691

(10) STAFF COSTS (CONTINUED)

Costs incurred in respect of these employees were:

	2005 £million	2004 £million
Wages and salaries	**397.8**	364.3
Social security costs	**77.7**	73.0
Other pension costs (note 33)		
— amounts within operating profit	**15.8**	12.6
— amounts included as other finance costs	**0.6**	1.0
— amounts recognised in statement of recognised income and expense	**18.8**	7.9
Share-based compensation charge (note 44)	**5.3**	2.2
	516.0	461.0

(11) FINANCE INCOME

	2005 £million	2004 £million
Interest income		
Bank deposit interest income	**1.6**	1.2
Other finance income	**6.4**	6.8
	8.0	8.0
Gains on derivative financial instruments		
Classified as held for trading	**0.3**	—
Ineffectiveness on fair value hedges	**2.8**	—
Ineffectiveness on cash flow and net investment hedges	**2.1**	—
	5.2	—
	13.2	8.0

(12) FINANCE COSTS

	2005 £million	2004 £million
Interest expense		
Bank loans and overdrafts	**15.5**	23.9
Loan notes	**18.2**	19.7
Finance charges on finance leases	**1.0**	0.6
Finance charges on securitised receivables	**3.5**	3.5
Other loans	**0.9**	1.0
	39.1	48.7
Other finance costs		
Net return on defined benefit pension schemes	**0.6**	1.0
Discount on deferred acquisition consideration	**—**	0.2
	0.6	1.2
Losses on derivative financial instruments		
Losses on cash flow hedges transferred from equity	**7.0**	—
	46.7	49.9

(13) TAX

An analysis of the tax charge in the year was as follows:

	2005 £million	2004 £million
UK corporation tax		
Current tax on income for the year at 30% (2004 30%)	**61.0**	57.4
Double taxation relief	**(28.3)**	(27.4)
Adjustments in respect of prior years	**(0.9)**	—
	31.8	30.0
Overseas tax		
Current tax on income for the year	**29.5**	28.5
Adjustments in respect of prior years	**1.2**	2.5
	30.7	31.0
Current tax charge	**62.5**	61.0
Deferred tax		
UK	**5.3**	0.8
Overseas	**(1.0)**	1.9
Remittable associates' earnings	**3.2**	2.6
Adjustments in respect of prior years	**(3.4)**	(2.8)
	4.1	2.5
Deferred tax on defined benefit pension schemes	**1.0**	1.8
Deferred tax charge	**5.1**	4.3
	67.6	65.3

The underlying tax charge, calculated before exceptional items as classified by Alliance UniChem (comprising costs in relation to the proposed merger, profit on disposal of businesses and profit on disposal of/(amounts written off) investments) and IAS 39 timing differences from hedging interest rate and currency exposures, reconciles to the tax charge in the year as follows:

	2005 £million	2004 £million
Underlying tax	**69.7**	65.3
Tax on		
— exceptional items	**(3.0)**	—
— IAS 39 timing differences	**0.9**	—
	67.6	65.3

For the purpose of reconciling the expected total tax charge to the actual total tax charge, the Group's profit before tax is calculated as follows:

	2005 £million	2004 £million
Profit before tax	**278.9**	253.0
Less: share of associates' post tax earnings	**(45.3)**	(34.0)
	233.6	219.0

(13) TAX (CONTINUED)

The Group's principal operations are in Europe and the appropriate standard rate of tax is the average of the standard tax rates in the countries of operation, weighted by the amount of profit on ordinary activities before taxation. The reconciliation of expected total tax charge using this standard tax rate of 31.1% (2004 32.3%) to the actual total tax charge was as follows:

	2005 £million	2004 £million
Expected tax charge at standard tax rate	**72.6**	70.7
Profit on disposal of businesses	**(5.4)**	(5.9)
Profit on disposal of/(amounts written off) investments	**—**	0.6
Permanent timing differences	**3.8**	2.7
Income taxed at lower rates	**(1.5)**	(1.7)
Withholding tax on remitted associates' earnings	**1.0**	0.4
Deferred tax on unremitted associates' earnings	**3.2**	2.6
Tax losses brought forward and utilised in year	**(0.1)**	(0.9)
Unrelieved tax losses arising in year	**—**	0.1
Adjustment in respect of prior years	**(3.1)**	(0.3)
Rate difference on deferred tax	**(2.9)**	(3.0)
Total tax charge	**67.6**	65.3

Tax on items charged/(credited) to equity comprised:

	2005 £million	2004 £million
Tax charge on currency translation differences on foreign currency borrowings	**—**	0.3
Tax credit on net losses on cash flow hedges	**(0.3)**	—
Tax credit on share based compensation	**—**	(0.5)
Tax credit on defined benefit pension schemes	**(6.0)**	(2.6)
Tax charge on revaluation of available-for-sale investments	**0.8**	—

Deferred tax on net losses of cash flow hedges transferred to the income statement amounted to £2.1 million.

(14) DIVIDENDS

	2005 £million	2004 £million
Amounts recognised as distributions to equity holders in the year		
Final dividend per share for the year ended 31 December 2004, net 12.25p (2003 11.0p)	**43.5**	38.1
Interim dividend per share for the year ended 31 December 2005, net 6.9p (2004 6.25p)	**24.9**	21.5
	68.4	59.6
Proposed final dividend per share for the year ended 31 December 2005, net 13.6p (2004 12.25p)	**48.4**	43.5

The proposed final dividend for the year ended 31 December 2005 is subject to approval by shareholders at the Annual General Meeting on 25 April 2006 and has not been included as a liability in these financial statements.

(15) EARNINGS PER SHARE

Earnings per share are calculated by dividing the profit for the year attributable to equity shareholders by the weighted average number of shares in issue during the year. The diluted earnings per share are calculated by dividing the profit for the year attributable to equity shareholders by the weighted average number of shares in issue added to the dilutive potential shares assuming they had all converted to issued shares at the beginning of the year.

	2005			2004		
	Profit for the year attributable to equity shareholders £million	**Weighted average number of shares million**	**Earnings per share pence**	Profit for the year attributable to equity shareholders £million	Weighted average number of shares million	Earnings per share pence
Basic	**210.7**	**357.6**	**58.9**	187.3	350.6	53.4
Potentially dilutive share options	**—**	**3.9**	**(0.6)**	—	3.0	(0.4)
Deferred acquisition consideration	**—**	**—**	**—**	0.2	1.5	(0.2)
Diluted	**210.7**	**361.5**	**58.3**	187.5	355.1	52.8

To assist investors in understanding the underlying performance, adjusted earnings per share amounts are calculated excluding exceptional items as classified by Alliance UniChem (comprising costs in relation to the proposed merger, profit on disposal of businesses and profit on disposal of/(amounts written off) investments) and IAS 39 timing differences arising from hedging interest rate and currency exposures as follows:

	2005			2004		
	Profit for the year attributable to equity shareholders £million	**Weighted average number of shares million**	**Earnings per share pence**	Profit for the year attributable to equity shareholders £million	Weighted average number of shares million	Earnings per share pence
Basic	**210.7**	**357.6**	**58.9**	187.3	350.6	53.4
Exceptional items net of tax	**(9.1)**	**—**	**(2.5)**	(17.3)	—	(4.9)
IAS 39 timing differences net of tax	**(4.3)**	**—**	**(1.2)**	—	—	—
Adjusted basic	**197.3**	**357.6**	**55.2**	170.0	350.6	48.5
Potentially dilutive share options	**—**	**3.9**	**(0.6)**	—	3.0	(0.4)
Deferred acquisition consideration	**—**	**—**	**—**	0.2	1.5	(0.2)
Adjusted diluted	**197.3**	**361.5**	**54.6**	170.2	355.1	47.9

(16) GOODWILL

	£million
Cost	
At 1 January 2004	204.0
Elimination of accumulated amortisation prior to the adoption of IFRS 3	(31.7)
Businesses acquired	14.2
Businesses disposed	(12.0)
Currency translation differences	1.1
At 1 January 2005	**175.6**
Businesses acquired	**64.1**
Businesses disposed	**(3.6)**
Currency translation differences	**(4.0)**
At 31 December 2005	**232.1**

(17) INTANGIBLE ASSETS

	Retail pharmacy licences £million	Software £million	Software under development £million	Total £million
Cost				
At 1 January 2004	614.2	33.7	3.5	651.4
Additions	—	5.7	—	5.7
Additions — internally developed	—	—	10.0	10.0
Businesses acquired	76.2	—	—	76.2
Disposals	—	—	(1.5)	(1.5)
Businesses disposed	—	(1.0)	—	(1.0)
Currency translation differences	3.4	0.3	—	3.7
At 1 January 2005	**693.8**	**38.7**	**12.0**	**744.5**
Additions	**—**	**5.7**	**—**	**5.7**
Additions — internally developed	**—**	**—**	**10.0**	**10.0**
Businesses acquired	**93.9**	**1.7**	**—**	**95.6**
Disposals	**—**	**(0.1)**	**(0.2)**	**(0.3)**
Businesses disposed	**—**	**(0.9)**	**—**	**(0.9)**
Currency translation differences	**(3.5)**	**(0.3)**	**—**	**(3.8)**
At 31 December 2005	**784.2**	**44.8**	**21.8**	**850.8**
Amortisation				
At 1 January 2004	1.8	22.5	—	24.3
Charge for the year	0.4	5.0	—	5.4
Businesses disposed	—	(0.8)	—	(0.8)
Currency translation differences	0.1	0.1	—	0.2
At 1 January 2005	**2.3**	**26.8**	**—**	**29.1**
Charge for the year	**0.3**	**2.6**	**—**	**2.9**
Businesses acquired	**—**	**0.7**	**—**	**0.7**
Businesses disposed	**—**	**(0.9)**	**—**	**(0.9)**
Currency translation differences	**(0.1)**	**(0.2)**	**—**	**(0.3)**
At 31 December 2005	**2.5**	**29.0**	**—**	**31.5**
Net book value at 31 December 2005	**781.7**	**15.8**	**21.8**	**819.3**
Net book value at 31 December 2004	691.5	11.9	12.0	715.4

(18) IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE FIXED ASSETS WITH INDEFINITE LIVES

Goodwill acquired and retail pharmacy licences with indefinite useful lives are allocated to the appropriate cash-generating unit (CGU) identified according to the country of operation and business.

The carrying amounts of goodwill by these segments were as follows:

			2005			2004
	Wholesale £million	**Retail £million**	**Total £million**	Wholesale £million	Retail £million	Total £million
UK	**—**	**29.2**	**29.2**	—	6.1	6.1
The Netherlands	**98.3**	**19.6**	**117.9**	98.5	6.5	105.0
France	**27.0**	**—**	**27.0**	21.8	—	21.8
Italy	**16.9**	**1.4**	**18.3**	16.3	1.3	17.6
Spain	**32.7**	**—**	**32.7**	17.8	—	17.8
Other	**5.3**	**1.7**	**7.0**	5.0	2.3	7.3
	180.2	**51.9**	**232.1**	159.4	16.2	175.6

(18) IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLE FIXED ASSETS WITH INDEFINITE LIVES (CONTINUED)

The net book value of retail pharmacy licences by these segments were as follows:

	2005 £million	2004 £million
UK	**579.7**	486.6
The Netherlands	**101.0**	103.8
Other	**75.5**	74.6
Indefinite lives	**756.2**	665.0
Subject to amortisation	**25.5**	26.5
	781.7	691.5

Goodwill and retail pharmacy licences are subject to annual impairment testing, or more frequently if there are indications of impairment. The recoverable amounts of the CGUs are determined from value-in-use calculations which use amounts from the approved budgets and plans. The discount rate applied to the cash flow projections was 8% (2004 8%). Average growth rates used to extrapolate cash flows beyond the approved budget and plan period were determined with reference to the CGU's country of operation and business segment, and ranged from 1% to 2% (2004 1% to 2%). The respective growth rates did not exceed the average long-term growth rate for the relevant market.

(19) PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £million	Furniture, fittings, plant and equipment £million	Vehicles £million	Total £million
Cost				
At 1 January 2004	205.3	297.7	22.1	525.1
Additions	18.4	37.7	4.8	60.9
Businesses acquired	0.9	1.1	—	2.0
Disposals	(4.8)	(8.6)	(7.4)	(20.8)
Businesses disposed	(0.9)	(9.8)	(0.4)	(11.1)
Currency translation differences	1.1	1.9	—	3.0
At 1 January 2005	**220.0**	**320.0**	**19.1**	**559.1**
Additions	**21.4**	**41.7**	**4.4**	**67.5**
Businesses acquired	**20.2**	**24.0**	**0.7**	**44.9**
Disposals	**(2.3)**	**(9.6)**	**(5.0)**	**(16.9)**
Businesses disposed	**(3.8)**	**(8.9)**	**(0.2)**	**(12.9)**
Currency translation differences	**(2.9)**	**(5.6)**	**0.1**	**(8.4)**
At 31 December 2005	**252.6**	**361.6**	**19.1**	**633.3**
Depreciation				
At 1 January 2004	44.4	178.8	12.6	235.8
Charge for the year	4.2	28.7	3.5	36.4
Businesses acquired	0.3	0.2	—	0.5
Disposals	(2.1)	(6.4)	(5.8)	(14.3)
Businesses disposed	(0.4)	(6.3)	(0.2)	(6.9)
Currency translation differences	0.2	1.4	—	1.6
At 1 January 2005	**46.6**	**196.4**	**10.1**	**253.1**
Charge for the year	**5.5**	**30.3**	**2.9**	**38.7**
Businesses acquired	**2.3**	**10.4**	**0.4**	**13.1**
Disposals	**(0.8)**	**(6.7)**	**(3.8)**	**(11.3)**
Businesses disposed	**(0.7)**	**(5.3)**	**(0.2)**	**(6.2)**
Currency translation differences	**(0.5)**	**(3.3)**	**(0.3)**	**(4.1)**
At 31 December 2005	**52.4**	**221.8**	**9.1**	**283.3**
Net book value at 31 December 2005	**200.2**	**139.8**	**10.0**	**350.0**
Net book value at 31 December 2004	173.4	123.6	9.0	306.0

(19) PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The net book value of assets held under finance leases, capitalised and included in land and buildings was:

	2005 £million	2004 £million
At 31 December	**28.2**	27.4

(20) SUBSIDIARIES

Details of the Group's principal subsidiaries, including their names, countries of incorporation and percentage proportion of ownership are provided in note 47.

(21) INVESTMENTS IN ASSOCIATES

	Share of net assets £million	**Goodwill £million**	**Total £million**
At 1 January 2004	157.1	83.8	240.9
Share of post tax earnings	34.0	—	34.0
Dividends	(4.3)	—	(4.3)
Businesses acquired	36.4	5.7	42.1
Transfer from other investments	14.4	—	14.4
Businesses disposed	(2.3)	—	(2.3)
Adjustments in respect of prior year investments	—	(1.0)	(1.0)
Currency translation differences	8.0	0.6	8.6
At 1 January 2005	**243.3**	**89.1**	**332.4**
Share of post tax earnings	**45.3**	**—**	**45.3**
Dividends	**(16.1)**	**—**	**(16.1)**
Businesses acquired	**5.2**	**12.9**	**18.1**
Part disposal of subsidiary undertaking	**13.8**	**—**	**13.8**
Investment in existing associate	**10.0**	**—**	**10.0**
Conversion of associate to subsidiary	**(16.3)**	**—**	**(16.3)**
Repayment of capital	**(2.8)**	**—**	**(2.8)**
Currency translation differences	**10.6**	**(0.5)**	**10.1**
At 31 December 2005	**293.0**	**101.5**	**394.5**

Details of the Group's principal associates are provided in note 47.

Included within the total carrying value of investments in associates was £157.8 million (2004 £156.8 million) in respect of listed companies. The market value of the holdings based on the closing share prices at 31 December 2005 was £248.3 million (2004 £231.2 million).

The part disposal of subsidiary undertaking and investment in existing associate relate to the disposal of 51% of the Group's interest in Alliance UniChem Farmacêutica S.A., and the Group's subsequent purchase of its share of new equity issued by the company.

The conversion of associate to subsidiary relates to the Group's increase in its direct ownership in Alloga S.A. from 20% to 100%, with the exception of the Swiss part of the business. This transaction was part of the Group's restructuring of its relationship with Galenica S.A., in which it holds a 25.5% interest in the ordinary share capital.

One of the Group associates, Hedef Alliance Holding A.S., operated in a hyperinflationary environment. During 2005, a monetary loss of £4.0 million (2004 £7.9 million) was recognised and recorded within share of post tax earnings.

(21) INVESTMENTS IN ASSOCIATES (CONTINUED)

The aggregated assets and liabilities reported by these associates were as follows:

	2005 £million	2004 £million
Total assets	**2,334.7**	2,052.5
Total liabilities	**(1,518.6)**	(1,326.7)
Net assets	**816.1**	725.8
Group share	**293.0**	243.3

The aggregated revenues reported by these associates were as follows:

	2005 £million	2004 £million
Total revenue	**5,450.7**	4,724.2
Group share	**1,965.3**	1,707.5

(22) OTHER INVESTMENTS

	Other listed investments £million	**Other unlisted investments £million**	**Total £million**
At 1 January 2004	55.8	4.5	60.3
Transfer to investments in associates	(14.4)	—	(14.4)
Impairment provision	—	(2.2)	(2.2)
Businesses acquired	—	0.5	0.5
Businesses disposed	—	(1.0)	(1.0)
Currency translation differences	(0.6)	—	(0.6)
At 31 December 2004	**40.8**	**1.8**	**42.6**
Reclassified under IAS 32 to available-for-sale investments at 1 January 2005	**(40.8)**	**(1.8)**	**(42.6)**
At 1 January and 31 December 2005	**—**	**—**	**—**

Following the adoption of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" from 1 January 2005, the other investments were reclassified to available-for-sale investments (see note 23).

(23) AVAILABLE-FOR-SALE INVESTMENTS

	£million
At 31 December 2004	**—**
Reclassified under IAS 32 from other investments at 1 January 2005	**42.6**
IAS 39 fair value adjustment at 1 January 2005	**3.9**
At 1 January 2005	**46.5**
Businesses acquired	**1.0**
Increase in fair value transferred to equity (note 38)	**9.7**
Disposals	**(7.4)**
Currency translation differences	**(1.4)**
At 31 December 2005	**48.4**

(23) AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

Available-for-sale financial assets comprised the following:

	2005		2004
	Fair value £million	Book value £million	Fair value £million
Listed securities			
— equity securities	**46.6**	40.8	44.7
Unlisted securities			
— equity securities	**1.8**	1.8	1.8
	48.4	42.6	46.5

The values shown for available-for-sale financial assets were derived using quoted market prices for listed securities. For unlisted securities the original cost has been used as a proxy for their current marketable value due to the absence of an active market. Where original cost is used the investment will be subject to impairment testing where an indicator of impairment has been observed. The investments have no fixed maturity date or coupon rate and are accounted for on a settlement date basis.

The 2004 values reflect UK GAAP and the disclosure requirements under FRS 13 "Derivatives and other financial instruments".

(24) INVENTORIES

Inventories comprised solely finished goods and are valued at the lower of cost and net realisable value.

(25) TRADE AND OTHER RECEIVABLES

	2005		2004	
	Current £million	**Non-current £million**	Current £million	Non-current £million
Trade debtors	**1,272.8**	**—**	869.4	—
Less: provision for impairment of trade debtors	**(24.0)**	**—**	(24.7)	—
Trade debtors — net	**1,248.8**	**—**	844.7	—
Loans to customers	**63.0**	**25.5**	48.6	39.4
Other debtors	**70.9**	**1.7**	103.3	0.8
Prepayments and accrued income	**36.7**	**—**	24.1	—
Corporate tax recoverable	**5.3**	**—**	6.4	—
	1,424.7	**27.2**	1,027.1	40.2

Concentrations of credit risk with respect to trade debtors are limited due to the Group's customer base being large and unrelated. Due to this, management believe there is no further credit risk provision required in excess of the normal provision for impairment of trade debtors.

In certain wholesale businesses overdue accounts are subject to interest penalties. The value of interest levied in such cases is not significant.

(26) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised cash held by the Group and short-term bank deposits with an original maturity of no more than three months.

(27) NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The major classes of assets classified as held for sale were as follows:

	2005 £million	2004 £million
Land and buildings	**—**	1.7

(28) FINANCIAL LIABILITIES — BORROWINGS

IFRS 1 "First-time Adoption of International Financial Reporting Standards" allows a number of exceptions to the general principle that IFRS accounting policies are to be applied retrospectively. One of the exceptions adopted by the Group is to apply IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" from 1 January 2005.

In accordance with IFRS, the 2005 amounts are shown before the impact of derivative financial instruments, which are described in note 30. The 2004 borrowings are presented on the previously reported UK GAAP basis and are shown net of the impact of derivative financial instruments taken out to hedge currency risk.

(a) Carrying amount

The carrying amount of the Group's borrowings net of cash and cash equivalents was as follows:

	2005 £million	2004 £million
Current		
Bank overdrafts	**144.3**	82.1
Bank loans	**67.8**	85.1
Loan notes	**2.1**	3.1
Obligations under finance leases	**2.2**	5.4
	216.4	175.7
Non-current		
Bank loans	**131.9**	178.4
2008 Senior notes 6.63% (US$57 million)	**33.8**	35.6
2009 Senior notes 6.67% (US$113 million)	**67.3**	70.6
2011 Senior notes 6.55% (US$173 million)	**102.6**	137.4
2011 Senior notes 6.07% (€30 million)	**21.8**	21.2
2012 Senior notes 7.19% (US$300 million)	**183.2**	226.0
2017 Senior notes 7.01% (£50 million)	**51.5**	52.0
Obligations under finance leases	**13.1**	10.8
	605.2	732.0
Borrowings	**821.6**	907.7
Cash and cash equivalents	**(133.5)**	(101.9)
Borrowings net of cash and cash equivalents	**688.1**	805.8

Debt denominated in a foreign currency has been translated into Sterling (the Group's reporting currency) at the rates applicable on the reporting date.

Loan notes totalling £1.9 million, classified within current borrowings, can be redeemed by the holders giving one month's notice before an interest payment date. However, if no notice is given, these notes will fall due at their maturity dates, which are between 2006 and 2014.

(28) FINANCIAL LIABILITIES — BORROWINGS (CONTINUED)

(b) Maturity profile

The maturity profile of the Group's borrowings at 31 December was:

	Bank overdrafts £million	Bank loans £million	Loan notes £million	Senior notes £million	Obligations under finance leases £million	Total £million
At 31 December 2005						
On demand or within one year	**144.3**	**67.8**	**2.1**	**—**	**2.2**	**216.4**
Between one and two years	**—**	**117.7**	**—**	**—**	**2.1**	**119.8**
Between two and five years	**—**	**12.4**	**—**	**101.1**	**3.3**	**116.8**
In more than five years	**—**	**1.8**	**—**	**359.1**	**7.7**	**368.6**
	144.3	**199.7**	**2.1**	**460.2**	**15.3**	**821.6**
At 31 December 2004						
On demand or within one year	82.1	85.1	3.1	—	5.4	175.7
Between one and two years	—	63.3	—	—	1.2	64.5
Between two and five years	—	112.7	—	106.2	3.0	221.9
In more than five years	—	2.4	—	436.6	6.6	445.6
	82.1	263.5	3.1	542.8	16.2	907.7

The minimum lease payments under finance leases fall due as follows:

	2005 £million	2004 £million
Within one year	**2.9**	6.9
Between one and five years	**7.5**	6.4
In more than five years	**20.1**	19.4
Future finance charges on finance leases	**(15.2)**	(16.5)
Present value of finance lease liabilities	**15.3**	16.2

The average term of all outstanding finance leases at 31 December 2005 is 11.6 years (2004 11.2 years).

(c) Currency and interest rate profile

The Group carries a cash flow risk when there are changes in the interest rates levied on the Group's floating rate borrowings. The Group is exposed to fair value risk in respect of the Group's fixed rate borrowings. These risks are managed using interest rate swap derivative instruments. Where the borrowings are denominated in a foreign currency the Group hedges this through the use of cross-currency derivative instruments.

Details of derivative financial instruments are provided in note 30.

(28) FINANCIAL LIABILITIES — BORROWINGS (CONTINUED)

(c) Currency and interest rate profile (continued)

The Group's borrowings were denominated in the following currencies:

	Bank overdrafts £million	Bank loans £million	Loan notes £million	Senior notes £million	Obligations under finance leases £million	Total £million
At 31 December 2005						
Sterling	**56.9**	**—**	**1.9**	**51.5**	**6.2**	**116.5**
Euro	**77.0**	**172.7**	**0.2**	**21.8**	**9.1**	**280.8**
Czech Koruna	**10.4**	**19.1**	**—**	**—**	**—**	**29.5**
Norwegian Kroner	**—**	**7.9**	**—**	**—**	**—**	**7.9**
US Dollar	**—**	**—**	**—**	**386.9**	**—**	**386.9**
	144.3	**199.7**	**2.1**	**460.2**	**15.3**	**821.6**
At 31 December 2004						
Sterling	1.1	17.3	2.9	50.0	6.4	77.7
Euro	63.1	189.8	0.2	21.2	9.8	284.1
Czech Koruna	17.9	7.1	—	—	—	25.0
Norwegian Kroner	—	7.1	—	—	—	7.1
Swiss Franc	—	27.6	—	—	—	27.6
US Dollar	—	—	—	335.6	—	335.6
	82.1	248.9	3.1	406.8	16.2	757.1

The comparative amounts at 31 December 2004 are before the impact of derivative financial instruments taken out to hedge currency risk.

In addition, the Group has Sterling and Euro denominated financial liabilities relating to financing linked to securitisation (see note 29).

The effective interest rates at the balance sheet dates were as follows:

	2005 %	2004 %
Bank overdrafts	**3.4**	3.9
Bank loans	**2.7**	3.1
Loan notes	**4.4**	4.4
Senior notes	**6.9**	6.9

Bank overdrafts are repayable on demand. The interest rates applicable to bank overdrafts, bank loans and loan notes are all floating rates. The effective interest rates for these are very closely related to the relevant LIBOR rate plus any margin as at the balance sheet date. The weighted average interest rate for bank overdrafts and loans during the year was 3.5% (2004 5.8%). Loan notes carried a weighted average interest rate during the year of 4.4% (2004 4.4%).

The Senior notes bear interest at fixed rates and therefore the effective interest rate is the rate required to discount the future expected cash flows over the expected life of the debt to equal the carrying value of the debt. The fixed interest rates are shown in the table in section (a) of this note.

(d) Undrawn committed borrowing facilities

The maturity profile of the Group's undrawn committed facilities at 31 December was:

	2005 £million	2004 £million
Between one and two years	**489.6**	—
Between two and five years	**—**	126.6
	489.6	126.6

(28) FINANCIAL LIABILITIES — BORROWINGS (CONTINUED)

(d) Undrawn committed borrowing facilities (continued)

The Group has financial covenants in respect of the committed bank facilities and the Senior notes. These covenants relate to maintaining a minimum level of interest cover and not exceeding a defined level of gearing. In respect of the Senior notes only, there is an additional covenant requiring the Group to limit the amount of subsidiary indebtedness when expressed as a percentage of Group equity. The Group has complied with all covenants throughout the period.

(29) SECURITISED RECEIVABLES

(a) French and Italian schemes

Receivables of £344.2 million (2004 £343.2 million) from French and Italian pharmacies have been securitised under five year programmes that mature in 2007. Consistent with Group policy, the Group is not obliged to support any losses in respect of the amounts advanced under the securitisation arrangements. The amounts advanced amounted to £292.7 million (2004 £300.8 million). The provider of these arrangements has agreed in writing that it will seek repayment of the finance as to both principal and interest only to the extent that sufficient funds are generated from the receivables discounted and that it will not seek recourse in any other form.

In respect of the Italian receivables, these have been sold to Alleanza No.1 which in line with SIC 12 "Consolidation — Special purpose entities", has been determined to be controlled by the Group and consequently has been consolidated in the Group financial statements. The French receivables have been sold to a multi-purpose vehicle which is not treated as a subsidiary under SIC 12 as it is not deemed to be controlled by the Group.

(b) UK scheme

In 2001, the Group entered into a five year agreement to sell UK receivables to Alliance No.1 PLC ("Alliance"). Alliance has issued £100.0 million (2004 £100.0 million) secured notes to independent investors to finance the purchase of the receivables. The Group has provided finance totalling £14.0 million (2004 £12.9 million), which is subordinated, representing the excess of the face value of the receivables sold over the £100.0 million received. The secured notes are serviceable only from the cash flows generated from the securitised receivables together with £14.0 million of finance provided by the Group (2004 £12.9 million).

In accordance with SIC 12, Alliance has been determined to be controlled by the Group and consequently has been consolidated within these financial statements. The Group exposure to any additional financial risks is judged to be negligible.

The maturity profile of the Group's financing linked to securitisation at 31 December 2005 was:

	France securitisation £million	Italy securitisation £million	UK securitisation £million	2005 Total £million
Within one year	**189.4**	**—**	**100.0**	**289.4**
Between one and two years	**—**	**103.3**	**—**	**103.3**
	189.4	**103.3**	**100.0**	**392.7**

(30) FINANCIAL INSTRUMENTS

IAS 32 "Financial Instruments: Disclosure and Presentation" disclosures

IFRS 1 "First-time Adoption of International Financial Reporting Standards" allows a number of exceptions to the general principle that IFRS accounting policies are to be applied retrospectively. One of the exceptions adopted by the Group is to apply IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" from 1 January 2005. Whilst not required, the Group has provided certain disclosure information on derivative financial instruments at 1 January 2005 in order to aid comparison with the 2005 year end disclosures.

(30) FINANCIAL INSTRUMENTS (CONTINUED)

IAS 32 "Financial Instruments: Disclosure and Presentation" disclosures (continued)

The 2004 comparative disclosures are prepared under UK GAAP, specifically FRS 13 "Derivatives and other financial instruments", and the second part of this note provides the disclosure information required.

(a) Book and fair value of financial instruments

A comparison of book values and fair values of the Group's financial assets and liabilities at 31 December 2005 is set out below:

	Carrying value £million	Fair value £million
Financial assets		
Non-current assets		
Available-for-sale investments	**48.4**	**48.4**
Trade and other receivables	**27.2**	**27.2**
Derivative financial instruments	**3.5**	**3.5**
Current assets		
Trade and other receivables	**1,424.7**	**1,424.7**
Cash and cash equivalents	**133.5**	**133.5**
Derivative financial instruments	**0.6**	**0.6**
Financial liabilities		
Current liabilities		
Financial liabilities		
— borrowings	**(216.4)**	**(216.4)**
— financing linked to securitisation	**(289.4)**	**(289.4)**
Derivative financial instruments	**(12.2)**	**(12.2)**
Trade and other payables	**(1,383.5)**	**(1,383.5)**
Non-current liabilities		
Financial liabilities		
— borrowings	**(605.2)**	**(624.3)**
— financing linked to securitisation	**(103.3)**	**(103.3)**
— derivative financial instruments	**(83.4)**	**(83.4)**

With the exception of the Senior notes classified within non-current borrowings, the fair value of the financial assets and financial liabilities approximate to the carrying value.

The fair value of the Senior notes is calculated using discounted cash flow methodology, based on third party estimates of the Group's credit spread above the benchmark swap curve. The fair value of the Senior notes is £479.3 million.

The fair value of borrowings and financing linked to securitisation approximate to the carrying value due to either their short-term nature or being priced at variable interest rates.

Available-for-sale investments and derivative financial instruments are recorded at fair value. The fair values of derivative instruments have been calculated by discounting the future cash flows of the individual contracts using the appropriate market interest rate curve and foreign currency rate.

(b) Currency and interest rate risk

The Group's approach to managing financial risk is described in the financial review.

(30) FINANCIAL INSTRUMENTS (CONTINUED)

IAS 32 "Financial Instruments: Disclosure and Presentation" disclosures (continued)

(b) Currency and interest rate risk (continued)

Currency risk

The Group has foreign currency net investments denominated in Euros, Swiss Francs, Norwegian Kroner and Czech Koruna. The Group uses derivative financial instruments, specifically cross-currency swaps, and foreign currency borrowings to hedge the foreign currency risk. The effect of currency-swaps on borrowings is shown below:

	Before hedging £million	After hedging £million
Borrowings at 31 December 2005		
Sterling	**116.5**	**(42.4)**
Euro	**280.8**	**838.2**
Czech Koruna	**29.5**	**29.5**
Norwegian Kroner	**7.9**	**11.6**
Swiss Franc	**—**	**76.2**
US Dollar	**386.9**	**—**
	821.6	**913.1**

The after-hedging currency borrowings are used to hedge the Group's foreign currency net investments.

In addition, the Group has Sterling denominated financial liabilities of £100.0 million and Euro denominated financial liabilities of £292.7 million relating to financing linked to securitisation.

There are no significant unmatched currency exposures on monetary assets and liabilities after taking into account the effects of currency swaps and forward exchange contracts.

Interest rate risk

The Group has a mixture of fixed and floating rate borrowings. Of these, £475.5 million (58.0%) is at fixed interest rates (which predominantly relates to the Senior notes), and £346.1 million (42.0%) is at floating interest rates. The re-pricing risk of the Senior notes coincides with their maturity, which is provided in note 28. The floating rate borrowings re-price within three months of the reporting date based on short-term LIBOR rates for the relevant currency.

The fixed rate Senior notes have been swapped to floating interest rates (using derivative financial instruments, specifically cross-currency interest rate swaps) for their remaining life.

The Group hedges the cash flow interest rate exposure resulting from floating rate borrowings, financing linked to securitisation and cross-currency swaps through the use of interest rate swaps.

At 31 December 2005 the weighted average rate of pay fixed interest rate swaps was as follows:

	Weighted average %	Notional £million
Sterling	**5.7**	**20.0**
Euro	**3.6**	**327.0**
Norwegian Kroner	**6.6**	**10.0**

The gains or losses deferred in equity relating to cash flow hedges will reverse in the income statement during the next two years (being the life of the swaps).

(30) FINANCIAL INSTRUMENTS (CONTINUED)

IAS 32 "Financial Instruments: Disclosure and Presentation" disclosures (continued)

(b) Currency and interest rate risk (continued)

Interest rate risk (continued)

The interest rate profile of the Group's borrowings and financing linked to securitisation, after taking into account derivative financial instruments, was as follows:

	At fixed interest rates £million	At floating interest rates £million	Total £million
Sterling	61.2	(3.6)	57.6
Euro	270.4	860.6	1,131.0
Czech Koruna	—	29.5	29.5
Norwegian Kroner	9.9	1.6	11.5
Swiss Franc	—	76.2	76.2
	341.5	964.3	1,305.8

The following table shows the impact on the fair value of the Group's financial assets and liabilities of a 1% increase in interest rates and a 10% change in the value of Sterling:

	Fair value £million	1% increase in interest rates £million	10% weakening of Sterling £million
Cash at bank and in hand	133.5	—	5.4
Borrowings	(821.6)	24.5	(78.3)
Interest rate swaps	(0.4)	0.7	—
Cross-currency interest rate swaps	(91.1)	(16.3)	(23.4)
Financing linked to securitisation	(392.7)	—	(32.5)

(c) Derivative financial instruments

Hedge accounting

Achieving hedge accounting under IAS 32 and IAS 39 is based on measuring the effectiveness of the derivative as a hedge instrument as well as fulfilling hedge documentation rules. The effectiveness test compares the change in the fair value of the designated derivative and the change in the fair value of the hedged item, to determine if this ratio falls within the permitted range of 80% to 125%. Any derivative that falls outside the permitted range is reclassified as held-for-trading. Gains or losses on the derivative are recognised immediately in the income statement except where the derivative is designated within an effective cash flow or net investment hedge relationship, in which case the gains or losses are deferred in equity and are recycled through the income statement at the time that the hedged item is recognised in the income statement. The hedge accounting treatment is described further under accounting policies, derivative financial instruments.

Where a derivative does fall within the permitted range but is not 100% effective, the ineffective element is recognised in the income statement immediately. This gives rise to a gain or loss which is recognised under Finance income or Finance costs as appropriate. These gains or losses represent timing differences that will reverse over the life of the financial instruments.

(30) FINANCIAL INSTRUMENTS (CONTINUED)

IAS 32 "Financial Instruments: Disclosure and Presentation" disclosures (continued)

(c) Derivative financial instruments (continued)

Notional and fair value

The notional and fair value of the derivative financial instruments taken out by the Group to manage financial risk was as follows:

	Assets		Liabilities	
	Notional £million	Fair value £million	Notional £million	Fair value £million
Current				
At 31 December 2005				
Cash flow hedge derivatives	**—**	**—**	**(161.8)**	**—**
Net investment hedge derivatives	**—**	**—**	**(100.0)**	**(11.4)**
Held-for-trading derivatives	**109.7**	**0.6**	**(167.6)**	**(0.8)**
	109.7	**0.6**	**(429.4)**	**(12.2)**
At 1 January 2005				
Fair value hedge derivatives	35.0	0.1	—	—
Held-for-trading derivatives	100.0	1.1	(100.0)	(1.2)
	135.0	1.2	(100.0)	(1.2)

	Assets		Liabilities	
	Notional £million	Fair value £million	Notional £million	Fair value £million
Non-current				
At 31 December 2005				
Fair value hedge derivatives	**35.7**	**2.8**	**(431.0)**	**(48.1)**
Cash flow hedge derivatives	**51.7**	**0.1**	**(302.2)**	**(3.2)**
Net investment hedge derivatives	**103.9**	**0.6**	**(342.1)**	**(32.1)**
	191.3	**3.5**	**(1,075.3)**	**(83.4)**
At 1 January 2005				
Fair value hedge derivatives	36.2	2.2	(431.0)	(76.8)
Cash flow hedge derivatives	53.1	0.1	(449.4)	(9.7)
Net investment hedge derivatives	—	—	(546.0)	(61.0)
	89.3	2.3	(1,426.4)	(147.5)

Derivative financial instruments are used to manage the foreign currency risk of the net investments and the interest rate and currency risk of the Group's borrowings. The derivatives are classified as current or non-current in accordance with their maturity date.

The Group's risk management policy is to take out hedging instruments to cover actual interest rate or foreign currency risks. The Group's policy is not to engage in speculative transactions. Where a derivative (in whole or in part) cannot be designated to an underlying transaction or the hedge relationship falls outside the permitted effectiveness range, any gain or loss arising on the undesignated portion of a derivative is recognised in the income statement immediately. This could arise from temporary timing differences (for example, early closure of the underlying exposure) or differences between the timing or fair value of the hedged item compared to the derivative. Those derivative instruments (or portions thereof) that are not designated in a hedging relationship are classified as held-for-trading.

The Group transacts derivatives with counterparties that are highly rated by international credit rating agencies. These ratings are continually monitored.

(30) FINANCIAL INSTRUMENTS (CONTINUED)

UK GAAP disclosures of comparative information

As noted, the Group has taken up the option to only apply IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" from 1 January 2005. The 2004 comparative disclosures are prepared under previous UK GAAP, and the following provides the information required under FRS 13 "Derivatives and other financial instruments" for the interest rate profile for financial assets and liabilities and hedge accounting. Short-term debtors and creditors have been excluded from this note other than the currency profile of monetary assets and liabilities.

(a) Book and fair value of financial instruments

A comparison of book values and fair values of the Group's primary financial assets and liabilities at 31 December 2004 is set out below:

	Book value £million	Fair value £million
Cash at bank and in hand	101.9	101.9
Loans to associated undertakings	42.5	42.5
Other listed investments	40.8	44.7
Other unlisted investments	1.8	1.8
Debtors due after one year	40.2	40.2
Financial assets	227.2	231.1
Bank overdrafts	(82.1)	(82.1)
Bank loans	(249.0)	(249.0)
Loan notes	(409.8)	(444.3)
Obligations under finance leases	(16.2)	(16.2)
Total debt	(757.1)	(791.6)
Derivative financial instruments held to manage the interest rate and currency profile		
— interest rate derivatives	—	(7.1)
— cross currency derivatives	(150.6)	(136.9)
Financial liabilities	(907.7)	(935.6)

The fair values of fixed asset investments and interest rate and currency derivatives are based on market value. The fair values of the Senior notes are calculated using discounted cash flow methodology, based on third party estimates of the Group's credit spread above the benchmark swap curve. The fair value of all other financial instruments is approximately equal to book value due to either their short-term nature or their being at variable interest rates.

(b) Interest rate risk profile

The interest rate profile of financial assets and liabilities, after taking into account interest rate and currency derivative contracts, was as follows:

	At fixed interest rates £million	At floating interest rates £million	Non-interest bearing £million	Total £million
2004 financial assets				
Sterling	—	49.8	0.2	50.0
Euro	—	73.4	47.5	120.9
Other	2.3	52.5	1.5	56.3
	2.3	175.7	49.2	227.2

(30) FINANCIAL INSTRUMENTS (CONTINUED)

UK GAAP disclosures of comparative information (continued)

(b) Interest rate risk profile (continued)

Floating rate financial assets mainly comprise bank deposits and loans to associated undertakings which bear interest based on London inter-bank reference rates.

	Fixed rate financial liabilities					
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	At fixed interest rates £million	At floating interest rates £million	Impact of foreign currency swaps £million	Total £million
2004 financial liabilities						
Sterling	6.3	17.9	27.5	19.0	(150.0)	(103.5)
Euro	3.9	1.8	366.6	319.2	164.5	850.3
Other	6.6	2.1	9.7	151.2	—	160.9
			403.8	489.4	14.5	907.7

The Sterling fixed rate liabilities include a long-term property lease.

In addition to the amounts detailed, the Group had Sterling denominated floating financial liabilities of £100.0 million and Euro denominated floating financial liabilities of £300.8 million relating to non-recourse securitised receipts.

At the outset of the UK securitisation programme, the Group swapped the Sterling non-recourse receipts to repay Euro denominated debt. These swaps and other short-term swaps used to convert Sterling cash to Euros to repay Euro denominated debt, are shown in the table above. They are all on a floating rate basis.

The Group had further Euro denominated derivative financial instruments to hedge securitisation costs that varied according to interest rates, totalling £98.8 million. These instruments had a weighted average interest rate of 3.9% which was fixed for a weighted average period of 1.8 years.

Floating rate financial liabilities mainly comprise bank overdrafts, loans and loan notes predominantly bearing interest at margins over London inter-bank reference rates.

(c) Hedging

Under UK GAAP, gains and losses on instruments used for hedging were not recognised until the exposure that was being hedged was itself recognised. Unrecognised gains and losses on hedging instruments, and movements thereof, were as follows:

	Gains £million	Losses £million	Total £million
At 1 January 2004	25.5	(14.8)	10.7
Arising in previous years that were recognised in the year	(16.0)	6.8	(9.2)
Arising before 1 January that were not recognised in the year	9.5	(8.0)	1.5
Arising in the year that were not recognised in the year	7.7	(2.6)	5.1
At 31 December 2004	17.2	(10.6)	6.6
Of which expected to be recognised:			
– in 2005	7.3	(6.5)	0.8
– after 2005	9.9	(4.1)	5.8

A comparison of book and fair values of the Group's derivative financial instruments at 31 December 2004 is set out below:

	Book value £million	Fair value £million
Interest rate derivatives	—	(7.1)
Cross-currency derivatives	(150.6)	(136.9)

(31) TRADE AND OTHER PAYABLES

	2005 £million	2004 £million
Trade payables	**1,081.0**	1,130.9
Amounts owed to associate undertakings	**—**	0.5
Capital creditors	**7.3**	6.6
Other tax and social security payable	**92.3**	75.3
Other creditors	**142.8**	112.1
Accruals and deferred income	**60.1**	57.9
	1,383.5	1,383.3

(32) DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using the appropriate country tax rate. Deferred tax assets have been recognised in full on taxable losses where realisation of the tax benefit from these losses is probable.

The movement in the net deferred tax liability over the year was as follows:

	Unrelieved tax losses £million	Capital allowances £million	Fair value and revaluations £million	Chargeable gains deferred by roll over relief £million	Pensions £million	Associate remittable earnings £million	Other £million	Total £million
At 31 December 2004	(12.8)	26.1	78.2	14.9	(16.2)	7.4	3.0	100.6
IAS 39 adjustments at 1 January 2005	—	—	(6.7)	—	—	—	—	(6.7)
At 1 January 2005	(12.8)	26.1	71.5	14.9	(16.2)	7.4	3.0	93.9
Charged to the income statement	1.4	4.6	1.5	(1.7)	1.0	3.2	(4.9)	5.1
Businesses acquired	(2.6)	—	20.7	—	(0.2)	—	0.1	18.0
Business disposals	—	—	—	—	—	—	0.1	0.1
Reclassifications	—	0.7	0.3	—	—	—	0.1	1.1
Net amounts taken to equity	—	—	2.6	—	(6.0)	—	—	(3.4)
Currency translation differences	—	(0.2)	(0.5)	(0.1)	0.1	—	0.3	(0.4)
At 31 December 2005	**(14.0)**	**31.2**	**96.1**	**13.1**	**(21.3)**	**10.6**	**(1.3)**	**114.4**

Certain deferred tax balances have been offset as permitted by IAS 12 "Income Taxes". Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The following is an analysis of the deferred tax balances after offset:

	2005 £million	2004 £million
Deferred tax liabilities	**123.6**	108.4
Deferred tax assets	**(9.2)**	(7.8)
Net deferred tax liability	**114.4**	100.6

The Group did not recognise deferred income tax assets of £2.6 million (2004 £2.9 million) in respect of tax losses amounting to £7.5 million (2004 £8.2 million) that can be carried forward against future profits. This is because there are no current forecasts for profits against which those losses could be utilised.

(33) RETIREMENT BENEFIT OBLIGATIONS

The Group operates several pension arrangements; the Group's pension cost included within profit from operations was £15.8 million (2004 £12.6 million), being £8.7 million (2004 £5.7 million) in respect of its defined benefit pension arrangements and £7.1 million (2004 £6.9 million) in respect of its defined contribution arrangements. The Group's pension cost in respect of its defined benefit pension arrangements included within finance costs was £0.6 million (2004 £1.0 million).

UK scheme

The Group operates a principal UK pension scheme which has two plans: the UK Benefit Plan which is a funded defined benefit arrangement, and the UK Contribution Plan, which is a funded defined contribution arrangement. Both plans are administered by an independent company and their assets are held under trust separately from those of the Group.

The pension costs in respect of the UK benefit plan are assessed in accordance with the advice of an independent firm of actuaries. The most recent actuarial valuation used for this purpose was carried out as at 1 January 2003. This has been updated to take account of the requirements of IAS 19, in order to assess the liabilities at 31 December 2005.

Following the valuation, it was agreed to adopt an employer contribution rate of 10.9% of pensionable pay, effective from 1 January 2004. In addition annual payments of £5.5 million were agreed for 2003, 2004 and 2005 and further annual payments of £4.3 million for the subsequent 11 years. Previously, the rate payable had been 13.3% of pensionable pay since 1 January 2001.

Other schemes

The Group also sponsors a number of defined benefit plans outside of the UK, some of which are material.

In The Netherlands there is a defined benefit pension plan, which is administered by a separate pension fund. In France there are insured arrangements providing retirement and termination benefits.

In Norway there are five defined benefit plans in place. Four of the plans are insured and are accounted for as defined benefit plans. The fifth plan is an industry-wide multi-employer defined benefit plan operated by a government agency. This plan has been treated on a defined contribution basis under IAS 19 because the Group is unable to identify its share of the assets and liabilities on a consistent and reasonable basis. The contributions currently payable to this plan are calculated as a flat percentage of salary across all the employers and no account is taken of the actual accrued liabilities and assets of a particular employer. As at 31 December 2005, the agency provided a notional allocation of the assets and liabilities. The Group's notional allocation of the deficit at 31 December 2005 was £7.7 million (2004 £2.1 million surplus). The government agency is reviewing the structure of this scheme with a view to identifying the assets and liabilities of the various participating employers. The results of this work may give a different allocation of the assets and liabilities from the notional allocation. Until this work is completed the scheme will continue to be accounted for as a defined contribution plan in accordance with IAS 19.

(33) RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Other schemes (continued)

The main financial assumptions used for the purpose of the actuarial valuations are set out below. The financial assumptions for the non-UK plans are weighted averages of the assumptions used for the overseas plans included.

	2005		2004	
	UK benefit plan % pa	**Other European % pa**	UK benefit plan % pa	Other European % pa
Discount rate	**4.8**	**4.0**	5.3	4.6
Expected return on assets	**6.5**	**5.1**	6.8	5.9
Inflation rate	**2.8**	**2.0**	2.9	2.0
Salary increases	**3.8**	**2.4**	3.9	2.4
Pension in payment increases for members who joined:				
— up to 31 December 1996 (pre-July 2003 service)	**5.0**	**1.1**	5.0	1.1
— up to 31 December 1996 (post-July 2003 service)	**2.6**	**1.1**	2.7	1.1
— from 1 January 1997	**2.6**	**1.1**	2.7	1.1

The amount recognised in the balance sheet in respect of the defined benefit plans is summarised as follows:

	2005			2004		
	UK benefit plan £million	**Other European £million**	**Total £million**	UK benefit plan £million	Other European £million	Total £million
Present value of plan obligations	**(167.9)**	**(55.3)**	**(223.2)**	(132.1)	(46.3)	(178.4)
Fair value of plan assets	**119.8**	**34.3**	**154.1**	95.3	30.1	125.4
Deficit in the plans	**(48.1)**	**(21.0)**	**(69.1)**	(36.8)	(16.2)	(53.0)

The net pension expense before taxation recognised in the income statement in respect of the defined benefit plans is summarised as follows:

	2005			2004		
	UK benefit plan £million	**Other European £million**	**Total £million**	UK benefit plan £million	Other European £million	Total £million
Current service cost	**(5.0)**	**(3.7)**	**(8.7)**	(4.9)	(2.5)	(7.4)
Curtailments/settlements	**—**	**—**	**—**	0.2	—	0.2
Past service cost	**—**	**—**	**—**	—	1.5	1.5
Charge to profit from operations	**(5.0)**	**(3.7)**	**(8.7)**	(4.7)	(1.0)	(5.7)
Expected return on plan assets	**6.8**	**1.9**	**8.7**	5.8	1.4	7.2
Interest on plan obligations	**(7.1)**	**(2.2)**	**(9.3)**	(6.3)	(1.9)	(8.2)
Charge to finance costs	**(0.3)**	**(0.3)**	**(0.6)**	(0.5)	(0.5)	(1.0)
Net pension expense before taxation	**(5.3)**	**(4.0)**	**(9.3)**	(5.2)	(1.5)	(6.7)

The actuarial gains and losses recognised in the statement of recognised income and expenditure in respect of the defined benefit plans is summarised as follows:

	2005			2004		
	UK benefit plan £million	**Other European £million**	**Total £million**	UK benefit plan £million	Other European £million	Total £million
Actual return on pension scheme assets less expected return on pension scheme assets	**10.1**	**1.3**	**11.4**	3.2	0.9	4.1
Experience gains and losses arising on the plan obligations	**0.7**	**0.2**	**0.9**	(2.3)	(0.9)	(3.2)
Changes in assumptions underlying the present value of the plan obligations	**(26.0)**	**(5.1)**	**(31.1)**	(4.2)	(4.6)	(8.8)
	(15.2)	**(3.6)**	**(18.8)**	(3.3)	(4.6)	(7.9)

(33) RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Other schemes (continued)

The cumulative amount of actuarial gains and losses recognised in the statement of income and expense is summarised as follows:

	2005			2004		
	UK benefit plan £million	**Other European £million**	**Total £million**	UK benefit plan £million	Other European £million	Total £million
Cumulative amount of actuarial gains and losses recognised in the statement of income and expense	**(18.5)**	**(8.2)**	**(26.7)**	(3.3)	(4.6)	(7.9)

The reconciliation of the opening and closing balances of the present value of the plan obligations is as follows:

	2005			2004		
	UK benefit plan £million	**Other European £million**	**Total £million**	UK benefit plan £million	Other European £million	Total £million
At 1 January	**132.1**	**46.3**	**178.4**	116.2	37.3	153.5
Charge to profit from operations	**5.0**	**3.7**	**8.7**	4.7	1.0	5.7
Interest on plan obligations	**7.1**	**2.2**	**9.3**	6.3	1.9	8.2
Actuarial losses	**25.3**	**4.9**	**30.2**	6.5	5.5	12.0
Contributions from participants	**1.6**	**0.6**	**2.2**	2.0	0.6	2.6
Benefits paid	**(3.2)**	**(1.5)**	**(4.7)**	(3.6)	(1.0)	(4.6)
Businesses acquired	**—**	**0.5**	**0.5**	—	—	—
Currency translation differences	**—**	**(1.4)**	**(1.4)**	—	1.0	1.0
At 31 December	**167.9**	**55.3**	**223.2**	132.1	46.3	178.4

The reconciliation of the opening and closing balances of the fair value of the plan assets is as follows:

	2005			2004		
	UK benefit plan £million	**Other European £million**	**Total £million**	UK benefit plan £million	Other European £million	Total £million
At 1 January	**95.3**	**30.1**	**125.4**	78.4	26.1	104.5
Expected return on plan assets	**6.8**	**1.9**	**8.7**	5.8	1.4	7.2
Actuarial gains	**10.1**	**1.3**	**11.4**	3.2	0.9	4.1
Contributions from employers	**9.2**	**3.1**	**12.3**	9.5	1.3	10.8
Contributions from participants	**1.6**	**0.6**	**2.2**	2.0	0.6	2.6
Benefits paid	**(3.2)**	**(1.5)**	**(4.7)**	(3.6)	(1.0)	(4.6)
Currency translation differences	**—**	**(1.2)**	**(1.2)**	—	0.8	0.8
At 31 December	**119.8**	**34.3**	**154.1**	95.3	30.1	125.4

The market value of the plan assets at 31 December is summarised as follows:

	2005 £million	2004 £million
UK Plan		
Equities	**85.7**	66.8
Bonds	**29.4**	23.9
Other	**4.7**	4.6
	119.8	95.3
Other European plans		
Equities	**7.4**	5.8
Bonds	**20.4**	17.9
Other	**6.5**	6.4
	34.3	30.1
	154.1	125.4

(33) RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Other schemes (continued)

The plan assets do not comprise any of the Group's own financial instruments nor does the Group occupy any property or use any other assets held by the plans.

The derivation of the overall expected return on assets reflects the actual asset allocation at the measurement date combined with an expected return for each asset class. The bond return is based on the prevailing return available on bonds. The return on equities and other assets is based on a number of factors including; the income yield at the measurement date; the long-term growth prospects for the economy in general; the long-term relationship between each asset class and bond returns; and the movement in market indices since the previous measurement date.

A breakdown of the expected returns for each category of assets is as follows:

	2005 %	2004 %
UK Plan		
Equities	**7.4**	7.5
Bonds	**4.0**	4.9
Other	**5.9**	6.1
Other European plans		
Equities	**8.0**	7.0
Bonds	**4.0**	4.1
Other	**5.0**	4.8

The actual return of the plan assets is summarised as follows:

	2005			2004		
	UK benefit plan £million	**Other European £million**	**Total £million**	UK benefit plan £million	Other European £million	Total £million
Actual return on plan assets	**16.9**	**3.2**	**20.1**	9.0	2.3	11.3

The funded status and experience adjustments in respect of the defined benefit plans is summarised as follows:

	2005		2004	
	UK benefit plan £million	**Other European £million**	UK benefit plan £million	Other European £million
Present value of plan obligations	**(167.9)**	**(55.3)**	(132.1)	(46.3)
Fair value of plan assets	**119.8**	**34.3**	95.3	30.1
Deficit in the plans	**(48.1)**	**(21.0)**	(36.8)	(16.2)

	2005		2004	
	UK benefit plan	**Other European**	UK benefit plan	Other European
Experience gains and losses on plan obligations				
Amount (£million)	**0.7**	**0.2**	(2.3)	(0.9)
Percentage of present value of plan obligations (%)	**0.4%**	**0.4%**	(1.7)%	(1.9)%
Difference between expected and actual returns on plan assets				
Amount (£million)	**10.1**	**1.3**	3.2	0.9
Percentage of plan assets (%)	**8.4%**	**3.8%**	3.4%	3.0%

The estimated amounts of contributions expected to be paid to the plans during the financial year ended 31 December 2006 is £11.8 million.

(34) CALLED UP SHARE CAPITAL

	2005		2004	
	Number million	**Share capital 10p ordinary shares £million**	Number million	Share capital 10p ordinary shares £million
Authorised share capital	**432.9**	**43.3**	432.9	43.3
Called up, issued and fully paid up				
At 1 January	**358.2**	**35.8**	350.7	35.1
Shares issued during the year	**3.5**	**0.4**	7.5	0.7
At 31 December	**361.7**	**36.2**	358.2	35.8

Details of shares allotted during the year were:

	Number million	**Price paid per share £**	**Consideration £million**
Share option exercises	**0.5**	**2.14–5.89**	**2.1**
Scrip dividends in lieu of 2004 final dividend	**3.0**	**7.36**	**22.0**
Share capital and share premium movement	**3.5**		**24.1**
Of which:			
Share capital			**0.4**
Share premium			**23.7**
			24.1

(34) CALLED UP SHARE CAPITAL (CONTINUED)

Details of outstanding options over ordinary shares at 31 December 2005 were:

Year of grant	Exercise price pence	**Outstanding 2005 Number**	Outstanding 2004 Number	Normally exercisable from
1990 Savings related scheme				
1997	214.00	**—**	1,457	01.07.04 to 31.12.04
1998	324.00	**2,645**	73,313	01.08.05 to 31.01.06
1999	384.00	**—**	527	01.07.04 to 31.12.04
1999	384.00	**40,024**	44,138	01.07.06 to 31.12.06
2000	291.00	**7,575**	250,715	03.07.05 to 02.01.06
2000	291.00	**105,168**	108,197	03.07.07 to 02.01.08
2001	463.00	**—**	334	01.07.04 to 31.12.04
2001	463.00	**160,345**	167,947	01.07.06 to 31.12.06
2001	463.00	**31,966**	33,710	01.07.08 to 31.12.08
2002	480.00	**11,537**	238,582	01.07.05 to 31.12.05
2002	480.00	**169,597**	184,419	01.07.07 to 31.12.07
2002	480.00	**42,096**	45,388	01.07.09 to 31.12.09
2003	337.00	**671,830**	729,297	01.07.06 to 31.12.06
2003	337.00	**445,739**	484,319	01.07.08 to 31.12.08
2003	337.00	**63,186**	66,134	01.07.10 to 31.12.10
2004	440.00	**408,903**	478,349	01.07.07 to 31.12.07
2004	440.00	**218,134**	237,595	01.07.09 to 31.12.09
2004	440.00	**65,392**	76,912	01.07.11 to 31.12.11
2005	589.47	**403,652**	—	01.07.08 to 31.12.08
2005	589.47	**191,816**	—	01.07.10 to 31.12.10
2005	589.47	**44,732**	—	01.07.12 to 31.12.12
		3,084,337	3,221,333	
1997 Discretionary scheme				
1998	429.50	**—**	66,000	07.05.01 to 06.05.05
1999	442.00	**68,000**	150,000	14.05.02 to 13.05.06
2000	379.00	**126,400**	371,000	23.03.03 to 22.03.07
2001	592.00	**382,000**	707,000	06.04.04 to 05.04.08
2002	609.00	**685,000**	1,610,000	09.04.05 to 08.04.09
2003	489.00	**1,797,000**	1,907,000	21.05.06 to 20.05.13
2004	556.00	**1,771,295**	1,896,295	19.03.07 to 18.03.14
2005	810.50	**1,525,945**	—	06.05.08 to 05.05.15
2005	818.20	**147,090**	—	19.05.09 to 18.05.15
2005	759.17	**27,500**	—	26.10.08 to 25.10.15
		6,530,230	6,707,295	
1998 Long-term incentive scheme				
2004	0.0001	**—**	27,577	20.03.04 to 19.03.14
2005	0.0001	**8,889**	—	26.10.05 to 25.04.06
2005	0.0001	**38,202**	—	16.05.05 to 15.05.06
		47,091	27,577	
I.K. Meakins share incentive plan				
2004	0.0001	**119,946**	119,946	01.12.05 to 01.12.14
		119,946	119,946	

(35) SHARE PREMIUM

	£million
At 1 January 2004	444.2
Shares issued	41.5
At 1 January 2005	**485.7**
Shares issued	**23.7**
At 31 December 2005	**509.4**

(36) EMPLOYEE SHARE TRUSTS

	2005 £million	2004 £million
At 1 January	**13.1**	23.1
Additions	**40.5**	—
Disposals	**(8.5)**	(10.0)
At 31 December	**45.1**	13.1

The Company has two employee share trusts, the 1992 Employee Trust and the Alliance UniChem Employee Share Trust. These trusts had a combined investment at 31 December 2005 of £45.1 million (2004 £13.1million) in 6.2 million (2004 2.9 million) of the Company's shares. The market value of the holdings at 31 December 2005 was £49.8 million (2004 £21.9 million). Under the terms of the trust, the dividend receivable in respect of the shares held in the 1992 Employee Trust, which held 6.1 million of the Company's shares at 31 December 2005, is 0.001 pence per share. The trusts have been set up primarily to transfer shares to option scheme holders on exercise of their options with administrative costs absorbed by the Company.

(37) RETAINED EARNINGS

	£million
At 1 January 2004	393.0
Profit for the year attributable to equity shareholders of the parent	187.3
Share-based compensation	
— charged to income statement	2.2
— deferred tax credit	0.5
Utilisation of accrual for long-term incentive plan	2.5
Dividends paid	(59.6)
Defined benefit pension schemes	
— actuarial loss	(7.9)
— deferred tax credit	2.6
Profit on sale of own shares	0.3
Transfer from capital reserve	(0.1)
At 31 December 2004	**520.8**
IAS 39 adjustments at 1 January 2005	**(8.9)**
At 1 January 2005	**511.9**
Profit for the year attributable to equity shareholders of the parent	**210.7**
Share-based compensation	
— charged to income statement	**5.3**
Dividends paid	**(68.4)**
Defined benefit pension schemes	
— actuarial loss	**(18.8)**
— deferred tax credit	**6.0**
Profit on sale of own shares	**1.4**
At 31 December 2005	**648.1**

(38) HEDGING, TRANSLATION AND OTHER RESERVES

	Translation reserve £million	Hedging reserves £million	Available-for-sale reserve £million	Capital reserve £million	Other reserves £million	Total £million
At 1 January 2004	—	—	—	2.6	—	2.6
Currency net investments						
— currency translation differences	8.8	—	—	—	—	8.8
— related deferred tax charge	(0.3)	—	—	—	—	(0.3)
Transfer to retained earnings	—	—	—	0.1	—	0.1
At 31 December 2004	**8.5**	**—**	**—**	**2.7**	**—**	**11.2**
IAS 39 adjustments at 1 January 2005	**—**	**(6.7)**	**3.5**	**—**	**—**	**(3.2)**
At 1 January 2005	**8.5**	**(6.7)**	**3.5**	**2.7**	**—**	**8.0**
Currency net investments						
— currency translation differences	**(5.8)**	**—**	**—**	**—**	**—**	**(5.8)**
Fair value of option to acquire minority interests	**—**	**—**	**—**	**—**	**(4.3)**	**(4.3)**
Cash flow and net investment hedges						
— fair value change in year	**—**	**15.3**	**—**	**—**	**—**	**15.3**
— deferred tax charge	**—**	**0.3**	**—**	**—**	**—**	**0.3**
— transferred to income statement	**—**	**4.9**	**—**	**—**	**—**	**4.9**
Available-for-sale investments						
— gains on revaluation	**—**	**—**	**9.7**	**—**	**—**	**9.7**
— deferred tax charge	**—**	**—**	**(0.8)**	**—**	**—**	**(0.8)**
— transferred to income statement	**—**	**—**	**(2.1)**	**—**	**—**	**(2.1)**
At 31 December 2005	**2.7**	**13.8**	**10.3**	**2.7**	**(4.3)**	**25.2**

(39) CASH FLOW STATEMENT

	2005 £million	2004 £million
(a) Cash generated by operations		
Continuing operations		
Profit from operations	**312.4**	294.9
Share of associates' post tax earnings	**(45.3)**	(34.0)
Profit on disposal of businesses	**(7.8)**	(19.2)
(Profit on disposal of)/amounts written off investments	**(2.1)**	1.9
Depreciation and amortisation	**41.6**	41.8
Share-based compensation charge	**5.3**	2.2
(Profit)/loss on disposal of property, plant and equipment	**(1.0)**	0.4
Decrease in inventories	**17.3**	33.3
(Increase)/decrease in receivables	**(11.6)**	67.0
Decrease in payables	**(30.2)**	(71.3)
Decrease in retirement benefit obligations	**(3.5)**	(5.9)
	275.1	311.1
(b) Net cash used in investing activities		
Acquisition of businesses	**(136.7)**	(88.7)
Net (overdrafts)/cash of businesses acquired	**(15.0)**	2.0
Disposal of businesses	**44.5**	31.0
Net overdrafts of businesses disposed	**66.2**	0.8
Purchase of investments in associates	**(11.8)**	(54.0)
Disposal of investments in associates	**8.7**	1.9
Repayment of capital by associate	**2.8**	—
Loans repaid by associates	**41.4**	4.3
Dividends from associates	**16.1**	4.3
Purchase of property, plant and equipment and intangible assets	**(82.5)**	(66.6)
Disposal of property, plant and equipment	**6.7**	7.7
Interest received	**7.1**	8.1
Proceeds from available-for-sale investments	**7.4**	—
	(45.1)	(149.2)

(39) CASH FLOW STATEMENT (CONTINUED)

	2005 £million	2004 £million
(c) Net cash (used in)/from financing activities		
Interest element of finance lease obligations	**(1.0)**	(0.6)
Dividend paid to equity shareholders	**(46.4)**	(31.7)
Dividends paid to minority interests	**(0.3)**	(0.1)
Proceeds from borrowings	**17.1**	40.7
Repayment of borrowings	**(102.2)**	(18.6)
Repayment of capital element of finance lease obligations	**(1.9)**	(1.5)
Proceeds from shares issued	**2.1**	1.9
Other investments (net)	**(29.6)**	10.8
	(162.2)	0.9
(d) Cash and cash equivalents outflow/(inflow) from decrease/ (increase) in debt and lease financing		
Proceeds from borrowings	**(17.1)**	(40.7)
Repayment of borrowings	**102.2**	18.6
Repayment of capital element of finance lease obligations	**1.9**	1.5
	87.0	(20.6)

(40) ANALYSIS OF MOVEMENT IN NET BORROWINGS

	Cash and cash equivalents £million	Borrowings within current liabilities £million	Borrowings within non-current liabilities £million	Derivative financial instruments £million	Net borrowings £million
At 31 December 2004	**101.9**	**(175.7)**	**(732.0)**	**—**	**(805.8)**
IAS 39 adjustment at 1 January 2005	**—**	**—**	**122.8**	**(145.1)**	**(22.3)**
At 1 January 2005	**101.9**	**(175.7)**	**(609.2)**	**(145.1)**	**(828.1)**
Decrease in cash and cash equivalents	**28.0**	**(64.6)**	**—**	**—**	**(36.6)**
Decrease in borrowings	**—**	**65.3**	**21.7**	**—**	**87.0**
Borrowings acquired with businesses	**—**	**(38.1)**	**(0.7)**	**—**	**(38.8)**
Other non-cash movements	**—**	**(9.7)**	**9.7**	**—**	**—**
Currency translation differences and fair value adjustments on financial instruments	**3.6**	**6.4**	**(26.7)**	**53.6**	**36.9**
At 31 December 2005	**133.5**	**(216.4)**	**(605.2)**	**(91.5)**	**(779.6)**

In the cash flow statement, cash and cash equivalents include bank overdrafts which are classified within borrowings within current liabilities in the balance sheet and amounted to £144.3 million (2004 £82.1 million).

(41) NET CASH OUTFLOW ON ACQUISITIONS AND DISPOSALS

An analysis of the net cash flow on acquisitions and disposals of businesses, associates and available-for-sale investments in the year is shown below:

	2005 £million	2004 £million
Acquisition of businesses	**(136.7)**	(88.7)
Net (overdrafts)/cash of businesses acquired	**(15.0)**	2.0
Disposal of businesses	**44.5**	31.0
Net overdrafts of businesses disposed	**66.2**	0.8
Purchase of investments in associates	**(11.8)**	(54.0)
Disposal of investments in associates	**8.7**	1.9
Loans repaid by associates	**41.4**	4.3
Proceeds from available-for-sale investments	**7.4**	—
Borrowings acquired with businesses	**(38.8)**	—
Loan notes issued for non-cash consideration	**—**	(0.7)
	(34.1)	(103.4)

(42) ACQUISITIONS

Purchase of businesses

The Group has continued its development during the year through a number of business acquisitions that have been accounted for by the purchase method of acquisition accounting and are summarised for wholesale and retail acquisitions.

The unaudited pro forma consolidated results of operations acquired during the year, presented as if the acquisitions had been made at the beginning of the financial year, would be as follows:

	2005 £million
Revenue	**409.8**
Profit attributable to equity shareholders	**6.0**

The excess of the fair value of the purchase price over the fair value of net assets of businesses acquired in the year, is recognised as goodwill, as follows:

Wholesale

Assets acquired at book and provisional fair value	Book and provisional fair value at acquisition £million
Intangible assets — software	**1.0**
Property, plant and equipment	**25.3**
Investments in associates	**5.2**
Available-for-sale investments	**1.0**
Deferred tax assets	**2.6**
Inventories	**16.7**
Trade and other receivables	**66.7**
Cash and cash equivalents	**5.1**
Borrowings	
— bank overdrafts	**(17.6)**
— bank loans	**(35.8)**
— finance leases	**(0.5)**
Trade and other payables	**(60.7)**
Current corporate tax liabilities	**(0.8)**
Minority interest	**(0.4)**
Net assets acquired	**7.8**

Consideration paid	£million
Cash	**19.4**
Deferred consideration	**16.3**
Non-cash consideration	**11.4**
	47.1
Purchased goodwill	**39.3**

The non-cash consideration relates to the Group's restructuring of its relationship with Galenica A.G., in which it holds a 25.5% interest in the ordinary share capital. Under the terms of the restructuring, the Group increased its direct ownership in Alloga S.A. from 20% to 100%, with the exception of the Swiss part of the business, which was fully acquired by Galenica A.G.. In addition, the Group sold its 50% direct interest in the ordinary share capital of GaleniCare S.A. to Galenica A.G.. The consideration for these transactions was settled on a net basis.

Of the purchased goodwill of £39.3 million, £11.4 million relates to the purchase of associates within the Alloga Group.

(42) ACQUISITIONS (CONTINUED)

Purchase of businesses (continued)

Retail

Assets acquired at book and provisional fair value	Book value at acquisition £million	Fair value adjustments £million	Provisional fair value at acquisition £million
Intangible assets — retail pharmacy licences	**24.7**	**69.2**	**93.9**
Property, plant and equipment	**6.7**	**(0.2)**	**6.5**
Inventories	**11.2**	**(0.5)**	**10.7**
Trade and other receivables	**9.2**	**0.2**	**9.4**
Borrowings			
— bank overdrafts	**(2.5)**	**—**	**(2.5)**
— bank loans	**(2.5)**	**—**	**(2.5)**
Trade and other payables	**(10.7)**	**—**	**(10.7)**
Current corporate tax liabilities	**(3.3)**	**(0.1)**	**(3.4)**
Deferred tax liabilities	**—**	**(20.6)**	**(20.6)**
Net assets acquired	**32.8**	**48.0**	**80.8**

Consideration paid	£million
Cash	**117.3**
Deferred consideration movement	**(0.3)**
	117.0
Purchased goodwill	**36.2**

Retail acquisitions comprised the acquisition of 83 pharmacies in the UK, Norway and The Netherlands.

(43) DISPOSALS

Disposal of businesses

During the year the Group disposed of 51% of its interest in Alliance UniChem Farmacêutica A.G., its entire interest in Elvetec in France and a number of other minor interests. The proceeds received for these transactions were £32.5 million. Within the balance sheets of the businesses disposed were net overdrafts of £66.2 million.

In addition, the Group received deferred consideration of £12.0 million arising from the disposal of non-core UK businesses in 2004.

Disposal of investments in associates

As described in note 42, during the year the Group restructured its relationship with Galenica A.G.. The transaction was settled on a net basis and resulted in a net cash inflow to the Group of £15.7 million. This comprised £8.6 million of net proceeds, £41.4 million of associate loans being repaid and, in respect of the acquired companies, £2.0 million of net cash and £36.3 million of borrowings were held in the acquired balance sheets.

In addition, the Group disposed of a minor associated undertaking for disposal proceeds of £0.1 million.

Disposal of available-for-sale investments

During the first half of the year, the Group disposed of its investment in Sanacorp Pharmahandel A.G..

(44) SHARE-BASED PAYMENTS

The Group issues equity settled, share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity settled, share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of an actuarial binomial model. The model includes adjustments, based on management's best estimate, for the effects of exercise restrictions, behavioural considerations and expected dividend payments. The option life is derived by the model based on these assumptions and the other assumptions identified below.

The total expense included within profit from operations in respect of share-based payments was £5.3 million (2004 £2.2 million).

Further details of the different types of share-based payments are as follows:

Discretionary 1997 Share Option Scheme

The Group operates a discretionary share option scheme for certain employees whereby options become exercisable on the achievement of certain financial earnings per share performance targets by the Group. Options granted under the scheme since May 2003 have no retesting of performance measures and have a fixed performance period being a defined three year period made up of three consecutive accounting periods. This period commences on 1 January of the year of the award. The option price is set at the market price of the Company's shares.

For those share option awards which gave rise to an expense in the year, the assumptions used in the calculation of the fair values were as follows:

Grant date	21 May 2003	19 March 2004	6 May 2005	19 May 2005	26 October 2005
Exercise price	489.0p	556.0p	810.5p	818.2p	759.2p
Vesting period (years)	3 – 4	3 – 4	3	4	3
Contractual lifetime (years)	7	7	7	7	7
Expected volatility	28%	28%	26%	26%	26%
Expected option life (years)	3.9 – 4.6	3.9 – 4.6	4.2	4.8	4.2
Risk free rate	3.9%	4.5% – 4.6%	4.6%	4.3%	4.6%
Expected dividends expressed as a dividend yield	3.1%	3.1%	2.3%	2.3%	2.3%
Fair value (pence)	117.1p – 121.3p	136.5p – 142.5p	206.4p	214.6p	193.3p

The expected volatility is based on the historic volatility of the Company's share price over the expected life of the option.

The movement during the year of the total outstanding options in respect of the awards identified above is provided below. The analysis of the outstanding options by award date at the beginning and the end of the year is provided in note 34.

	Number	Weighted average exercise price
Outstanding at 1 January 2005	**3,803,295**	**522.4p**
Granted	**1,753,506**	**810.3p**
Lapsed	**(128,971)**	**647.5p**
Exercised	**(159,000)**	**520.2p**
Outstanding at 31 December 2005	**5,268,830**	**615.2p**

None of the share options identified above as outstanding at 31 December 2005 had vested at that date.

(44) SHARE-BASED PAYMENTS (CONTINUED)

Savings Related Scheme

The Group provides UK employees with the ability to participate in the Group's Save As You Earn (SAYE) scheme which allows qualifying employees the opportunity to make regular savings over a fixed period of three, five or seven years. These savings accumulate with interest at a guaranteed rate. At the end of the savings contracts a bonus is added to the savings and participants have the option to use their savings to buy shares in Alliance UniChem Plc at a fixed price. In common with other UK companies, the option price is set at a 20% discount to the market price of the Company's shares at the date of grant. Exercise of an option is subject to continued employment.

For those share options issued under SAYE schemes which gave rise to an expense in the year, the assumptions used in the calculation of the fair values were as follows:

Grant date	17 April 2003	6 April 2004	5 April 2005
Exercise price	337.0p	440.0p	589.5p
Vesting period (years)	3, 5 or 7	3, 5 or 7	3, 5 or 7
Expected volatility	28%	28%	26%
Expected option life (years)	3.7 – 7.7	3.7–7.7	3.6 – 7.5
Risk free rate	3.9% – 4.4%	4.7% – 4.9%	4.7%
Expected dividends expressed as a dividend yield	3.3%	2.9%	2.4%
Fair value	141.9p – 156.6p	202.5p – 225.8p	267.1p – 304.4p

The expected volatility is based on the historic volatility of the Company's share price over the expected life of the option.

The movement during the year of the total outstanding options in respect of the schemes identified above is provided below. The analysis of the outstanding options by award date at the beginning and the end of the year is provided in note 34.

	Number	Weighted average exercise price
Outstanding at 1 January 2005	**2,072,606**	**376.4p**
Granted	**691,918**	**589.5p**
Lapsed	**(2,251)**	**387.7p**
Forfeited	**(124,283)**	**437.9p**
Cancelled	**(113,041)**	**429.3p**
Exercised	**(11,565)**	**364.0p**
Outstanding at 31 December 2005	**2,513,384**	**429.7p**

None of the share options identified above as outstanding at 31 December 2005 had vested at that date.

Long-term incentive plan

The long-term incentive plan is a discretionary arrangement under which allocations are made to executive Directors with the aim of rewarding them for creating shareholder value. Each allocation takes the form of a non-binding statement of intent to make an award of a stated maximum amount following the end of a specified performance period. The allocation is determined as a percentage of basic salary in the year that the performance period starts. The amount of the award is dependent on the achievement of certain performance measures during the performance period that the remuneration committee believe are the most appropriate measure of the underlying performance of the Group. The award takes the form of a right to acquire ordinary shares in the Company for a nominal sum within a period of ten years from the date of the award. The number of shares will be determined by the market price of the Company's shares at the date of the award. Further details are provided in the Board report on remuneration.

(44) SHARE-BASED PAYMENTS (CONTINUED)

Long-term incentive plan (continued)

For those awards which gave rise to an expense in the year, the assumptions used in the calculation of the fair values were as follows:

	2003 allocation	2004 allocation	2005 allocation
Grant date	7 March 2003	19 February 2004	18 February 2005
Exercise price	0.001p	0.001p	0.001p
Vesting period (years)	3	3	3
Possibility of ceasing employment before vesting	0%	0%	0%
Expectation of meeting performance criteria	70.3%	70.3%	71.7%

The movement during the year of the total outstanding allocations in respect of the awards identified above is provided below. The analysis of the outstanding allocations by award date at the end of the year and the comparative year is provided in the Board report on remuneration.

	Allocation £
Outstanding at 1 January 2005	**2,493,331**
Granted	**2,425,000**
Forfeited	**(521,666)**
Outstanding at 31 December 2005	**4,396,665**

None of the allocations identified above as outstanding at 31 December 2005 had vested at that date.

Initial share grant to Chief Executive and performance based matching

In order to recruit Ian Meakins, it was necessary to compensate him for the loss of potential long-term incentive benefits from his previous employer. In accordance with his service agreement, he was granted an option to acquire 119,946 shares in the Company (for £1 in total) on 17 December 2004 (the "Initial Award"). The shares comprising the Initial Award, which are held by the Alliance UniChem Employee Share Trust, are exercisable from 1 December 2005 to 1 December 2014. The Company will pay Ian Meakins annually the equivalent of the total gross dividend on these shares until they are exercised. He has waived any dividend entitlement in consideration of this payment.

In accordance with his service agreement, Ian Meakins will also be granted a further option to acquire 153,571 shares in the Company (for £1 in total) at the end of March 2008 (the "Matching Award"), matching the 119,946 shares of the Initial Award plus a personal investment of 33,625 shares which he purchased on 17 December 2004. The entitlement to receive all or any percentage of the Matching Award is subject to certain performance conditions and this has been allowed for in the calculation of the fair value.

The assumptions used in the calculation of the fair values were as follows:

	Initial share grant	Performance based matching Chief Executive shares
Grant date	1 December 2004	1 December 2004
Number of share options	119,946	153,571
Exercise price	£1 in total	£1 in total
Vesting period (years)	1	3
Expected dividends expressed as a dividend yield	n/a	2.4%
Fair value	719.0p	234.9p

There has been no movement in the number of options awarded under the schemes identified above.

(45) OPERATING LEASE COMMITMENTS

The operating lease rental expense in the year was:

	2005 £million	2004 £million
Operating lease rental expense		
— land and buildings	**27.7**	25.4
— furniture, fittings, plant and equipment	**1.3**	1.3
— vehicles	**7.2**	7.2
	36.2	33.9

At 31 December 2005 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005 £million	2004 £million
Within one year	**29.0**	34.8
Between one and five years	**78.1**	75.3
After five years	**52.4**	43.1
	159.5	153.2

(46) CAPITAL AND OTHER FINANCIAL COMMITMENTS

	2005 £million	2004 £million
Contracts placed for future capital expenditure not provided in the financial statements	**5.6**	1.0

(47) RELATED PARTY DISCLOSURES

Subsidiary undertakings

The consolidated financial statements include the financial statements of Alliance UniChem Plc and its subsidiary undertakings. The principal subsidiary undertakings all of which were indirectly held were:

	Interest in ordinary share capital and voting rights	Country of operation	Country of incorporation	Main activity
Northern Europe Wholesale				
UniChem Limited	100%	UK	UK	pharmaceutical wholesaler
Interpharm B.V.	100%	The Netherlands	The Netherlands	pharmaceutical wholesaler
Alliance UniChem CZ Spo	97.1%	Czech Republic	Czech Republic	pharmaceutical wholesaler
Holtung A.S.	100%	Norway	Norway	pharmaceutical wholesaler
Southern Europe Wholesale				
Alliance Santé S.A.	99.8%	France	France	pharmaceutical wholesaler
Alleanza Salute Italia SpA	100%	Italy	Italy	pharmaceutical wholesaler and holding company
Safa Galenica S.A.	99.2%	Spain	Spain	pharmaceutical wholesaler
Alloga S.A.	100%	Europe	Luxembourg	holding company for a number of pre-wholesalers
Retail				
E. Moss Limited	100%	UK	UK	retail pharmacy operator
Alliance UniChem Norge A.S.	100%	Norway	Norway	retail pharmacy operator
De Vier Vijzels B.V.	100%	The Netherlands	The Netherlands	retail pharmacy operator

(47) RELATED PARTY DISCLOSURES (CONTINUED)

Subsidiary undertakings (continued)

As permitted by Section 231(5) of the Companies Act 1985, only principal undertakings are shown. A complete list of all subsidiary undertakings is filed with the Company's annual return.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Associates

The Group's principal associates were:

	Interest in ordinary share capital and voting rights	Country of operation	Country of incorporation	Main activity
Alliance UniChem Farmacêutica S.A.[(1)]	49%	Portugal	Portugal	pharmaceutical wholesaler
Andreae-Noris Zahn AG[(2)]	29.99%	Germany	Germany	pharmaceutical wholesaler
Galenica A.G.[(3)]	25.5%	Switzerland	Switzerland	pharmaceutical wholesaler
Hedef Alliance Holding A.S.	50%	Turkey	Turkey	pharmaceutical wholesaler
Pharmapartners B.V.	40%	The Netherlands	The Netherlands	pharmaceutical software
UniDrug Distribution Group Limited	50%	UK	UK	pre-wholesaler
Unifarma Distribuzione S.r.l.	36%	Italy	Italy	pharmaceutical wholesaler

(1) The Group previously owned 100% of the ordinary share capital of Alliance UniChem Farmacêutica S.A. 51% of the ordinary share capital was disposed of during the year.
(2) The accounting reference date for Andreae-Noris Zahn AG is 31 August.
(3) All shares have the same voting rights, but no shareholder may exercise more than 20% of the votes.

Trading transactions with associated undertakings, all of which are carried out on an arms length basis were:

	2005		2004	
Sales	**Revenue in year £million**	**Balance at year end £million**	Revenue in year £million	Balance at year end £million
Alloga S.A. and subsidiaries	**—**	**—**	2.0	0.1
Pharmacy Initiative 1 Plc	**1.8**	**0.3**	1.9	0.2
Pharmacy Initiative 2 Plc	**1.4**	**0.3**	1.4	0.2
Pharmacy Initiative 3 Plc	**0.6**	**0.1**	0.6	0.1

	2005		2004	
Purchases	**Purchases in year £million**	**Balance at year end £million**	Purchases in year £million	Balance at year end £million
Alloga S.A. and subsidiaries	**0.2**	—	97.1	0.5
Unifarma Distribuzione S.r.l.	**0.2**	—	—	—

(47) RELATED PARTY DISCLOSURES (CONTINUED)

Key management remuneration

The remuneration of the executive Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified by IAS 24 "Related Party Disclosures". Further information regarding the individual remuneration of individual Directors is provided in the Board report on remuneration.

	2005 £million	2004 £million
Short-term employee benefits	**3.8**	3.7
Post-employment benefits	**1.1**	0.6
Other long-term benefits	**—**	—
Termination benefits	**0.5**	0.8
Share-based compensation charge	**2.1**	0.8
	7.5	5.9

(48) CONTINGENT LIABILITIES

The Group offers its UK wholesale customers access to long-term financing for their pharmacy businesses through financing arrangements developed by the Group with its banks. The Company supports these arrangements through the provision of guarantees, which at 31 December 2005 amounted to £19.6 million (2004 £18.6 million).

The Group has written a number of guarantees in relation to third party funding arrangements with subsidiaries. These guarantees can only be exercised by the lender in the event of predefined events all of which reflect financial risks. Therefore these agreements are accounted for under IAS 37.

Guarantees are also provided by another Group company that totalled £11.3 million at 31 December 2005 (2004 £30.7 million). Total loans outstanding through these financing arrangements at 31 December 2005 were £205.6 million (2004 £205.8 million).

On 31 December 2005 the total extent of these guarantees amounted to £30.9 million (2004 £49.3 million).

In the last five years the Group has not suffered any loss in relation to these schemes.

(49) POST BALANCE SHEET EVENTS

On 17 February 2006 the Group announced that it had reached an agreement to enter the Russian pharmaceutical wholesale market through the acquisition of a 96% controlling stake in A.P. Apteka Holding Limited, the parent company of Apteka Holding ZAO, for a consideration of approximately £18 million. In addition the Group will assume approximately £10 million of net debt. The Group will have an option to acquire the remaining 4% of A.P. Apteka Holding Limited within three to six years. The transaction, which is conditional upon receiving regulatory approval, is expected to be completed by the end of March 2006.

(50) TRANSITION TO IFRS

All references to "UK GAAP" in this note are to UK GAAP applicable for the year ended 31 December 2004. This is the first year that the Group has presented its financial statements under IFRS. The last financial statements under UK GAAP were for the year ended 31 December 2004 and the date of transition to IFRS was 1 January 2004. On 18 July 2005, the Group published detailed income statement and balance sheet reconciliations of UK GAAP to IFRS. The following is an abridged extract of the published document describing the effects of adoption of IFRS and the reconciliations required in the year of transition.

(50) TRANSITION TO IFRS (CONTINUED)

Summary of the effects of IFRS adoption

The principal impacts of IFRS on the Group's 2004 financial statements were as follows:

- recognition of a charge for the fair value of share-based compensation;
- requirement not to amortise goodwill;
- recognition of deferred taxation liabilities on pharmacy licences, unremitted earnings of associates and rolled over capital gains; and
- recognition of dividends only when they are declared rather than when proposed.

In terms of the 2004 results, reported profits increased under IFRS, mainly because of the reversal of goodwill amortisation and the reversal of goodwill recycled from reserves on the disposal of subsidiaries.

Impact on profit

Excluding goodwill amortisation, the profit on disposal of subsidiaries and amounts written off investments, the effect of adoption of IFRS was not significant. The Group considers the measurement of profit excluding these items to be a useful indication of underlying performance. The reduction in profits as a result of the requirement to recognise a charge for the fair value of share-based compensation awards was largely offset by the net credit arising from the movements in deferred taxation liabilities recognised on unremitted earnings of associates, pharmacy licences and rolled over capital gains.

Impact on net assets

Net assets at 31 December 2004 decreased under IFRS. This was predominantly due to the recognition of additional deferred taxation liabilities under IFRS — as a general principle, the recognition of deferred taxation liabilities is more comprehensive under IFRS than UK GAAP. Partially offsetting this reduction in net assets was the reversal of the 2004 goodwill amortisation charge and the accrual for the proposed 2004 final dividend.

Explanation of adjustments to conform to IFRS

The significant changes as a result of the transition to IFRS and of adopting the IFRS Group accounting policies are described below:

Share-based compensation

Principal difference

Under UK GAAP, a charge to the profit and loss account was made in respect of share-based compensation schemes based on the intrinsic value of the awards. Under IFRS 2 "Share-based Payment", a charge to income, representing the fair value of outstanding equity instruments granted to employees under share-based compensation schemes, is recognised over the vesting period of the schemes.

Impact

The Group's principal share based compensation schemes comprise savings related and discretionary share option schemes. Under UK GAAP, there was no charge for these share-based compensation schemes because they are either Inland Revenue approved (and therefore specifically excluded from the requirement to record a charge) or have an intrinsic value of nil as the option price is set at the market value at the date of grant. The Group has taken up the option under IFRS 1 permitting companies to apply IFRS 2 only to equity instruments granted after 7 November 2002 that had not vested prior to 1 January 2005. As a result, the share-based compensation charge in respect of equity settled compensation was £2.2 million for the year ended 31 December 2004.

(50) TRANSITION TO IFRS (CONTINUED)

Goodwill amortisation — business combinations

Principal difference

Under UK GAAP, goodwill was amortised over its expected useful economic life, up to a maximum of 20 years. Under IFRS 3 "Business Combinations" goodwill is not amortised. Under both UK GAAP and IFRS, the carrying value of goodwill is tested for impairment and provided for as necessary. The Group has carried out impairment tests and no adjustment was deemed necessary.

IFRS does not allow the recycling of goodwill to the income statement which was previously written off against reserves.

The Group has taken up the option under IFRS 1 permitting companies not to restate past business combinations prior to the opening balance sheet date (1 January 2004).

Impact

Goodwill amortisation under UK GAAP of £15.1 million, comprising £10.0 million in respect of subsidiary undertakings and £5.1 million in respect of associates, was added back to the profit for the year ended 31 December 2004.

The exceptional item under UK GAAP in the second half of 2004 relating to the profit on disposal of businesses included £11.1 million of capitalised goodwill and £6.5 million of goodwill originally written off directly to reserves and recycled to the profit and loss account as part of the calculation of the profit on disposal. Under IFRS, the profit on disposal was increased by a net amount of £5.6 million, being a reduction of the 2004 amortisation charge of £0.9 million deducted from the capitalised goodwill disposed of, and an increase due to the reversal of the amount of £6.5 million of goodwill recycled from reserves.

Deferred taxation

Principal difference

Under UK GAAP, deferred taxation was provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law at the balance sheet date. Deferred taxation was provided on remittable earnings of associates only where there is a commitment to remit the earnings. Deferred taxation was not provided on timing differences arising from either rolled over gains or the revaluation of fixed assets where there was no commitment to sell the asset.

Under IFRS, specifically IAS 12 "Income Taxes", deferred taxation is provided in full on all taxable temporary differences. Consequently, IFRS is generally more comprehensive in the requirement to recognise deferred taxation. For example, deferred taxation is provided on the revaluation of fixed assets and rolled over capital gains regardless of whether there is a commitment to sell the asset. Deferred taxation is provided on remittable earnings of associates where incremental tax would be due, regardless of whether there is a commitment to remit the earnings. Deferred taxation is also provided when retail pharmacy licences are acquired through the purchase of shares, regardless of whether there is an intention to sell the licences or not.

Impact

The most significant impact was on the opening balance sheet where there was a reduction in net assets of £90.3 million as a result of recognising additional deferred taxation liabilities. The largest item was £67.3 million in respect of deferred taxation liabilities on pharmacy licences, which arose as a consequence of our decision to take up the exemption not to revisit acquisition accounting prior to the IFRS transition date. Taking up the exemption meant that we were required to recognise this liability as a reduction to equity in the opening IFRS balance sheet, and as such it was a "one off" effect. Going forward, recognition of this type of deferred taxation liability results in an increase in capitalised goodwill.

(50) TRANSITION TO IFRS (CONTINUED)

Deferred taxation (continued)

Changes in taxation rates and indexation when applied to these additional deferred taxation liabilities impact profits under IFRS when compared to UK GAAP. The net impact of deferred taxation on the results of the Group for the year ended 31 December 2004 was an increase in profits of £1.5 million.

The following section describes in more detail the impact of the more significant additional deferred taxation liabilities recognised under IFRS.

Remittable earnings of associates:
A deferred taxation charge of £2.6 million arising on remittable earnings of associates was recognised in the year ended 31 December 2004 under IFRS. At 31 December 2004 the cumulative deferred taxation liability on all such remittable earnings was £7.4 million and at 1 January 2004 was £4.8 million.

Pharmacy licences:
When retail pharmacies are acquired through the purchase of shares (as opposed to asset deals), the Group acquires an asset (the licence) with a tax base cost significantly lower than the book value and so a temporary difference arises. The deferred taxation on this difference is recognised under IFRS. Under UK GAAP, deferred taxation was provided on timing differences and initial recognition of pharmacy licences as a fair value adjustment does not create a timing difference.

As noted, the Group chose not to restate business combinations prior to the IFRS transition date (1 January 2004). A consequence of this was that under the transitional requirements of IFRS 1, the deferred taxation liability on retail pharmacy licences required to be recognised under IFRS was adjusted through retained earnings rather than capitalised goodwill. For the Group, the effect of this requirement was to reduce total equity under IFRS at 1 January 2004 by £67.3 million, being the deferred taxation liability in relation to retail licences purchased under share deals up to 1 January 2004. The taxation will not be payable as long as the licences are not sold. From 1 January 2004, the deferred taxation liability has been recognised on acquisitions with a corresponding increase in capitalised goodwill, and as such there is no effect on total equity.

As a result of a reduction in the tax rate in The Netherlands in the second half of 2004 and indexation in the UK during 2004, the deferred taxation liability reduced and a deferred taxation credit of £2.6 million was recognised as an adjustment to the profit for the year ended 31 December 2004 under IFRS. After this credit, the effect at 31 December 2004 was to reduce total equity under IFRS by £64.7 million.

Rolled over capital gains:
The requirement to recognise a deferred tax liability on rolled over capital gains regardless of whether there was a commitment to sell the asset resulted in a decrease in total equity at the opening balance sheet date of £14.4 million. A deferred taxation credit of £1.0 million was recognised in the second half of the year ended 31 December 2004 as a result of a decrease in the French capital gains tax rate from 2005, applied to the rolled over capital gains relating to fixed asset investments held in France. This brought the total deferred taxation liability on rolled over gains at 31 December 2004 to £13.4 million.

Fixed asset revaluations:
The requirement to recognise a deferred tax liability on fixed asset revaluations regardless of whether there was a commitment to sell the asset resulted in a decrease in total equity at the opening balance sheet of £5.1 million. A deferred taxation credit of £0.5 million was recognised in the second half of the year as a result of the disposal of certain fixed assets. This brought the total deferred taxation liability on fixed asset revaluations at 31 December 2004 to £4.6 million.

(50) TRANSITION TO IFRS (CONTINUED)

Goodwill amortisation — business combinations (continued)

Deferred taxation (continued)

Share-based compensation charge:
A deferred taxation asset is recognised under IFRS in respect of share-based compensation. The asset is calculated on the difference between the market price of the Company's shares at the balance sheet date and the option price for options granted to UK employees and results in an increase in total equity at the opening balance sheet date of £0.2 million. On re-measurement of the deferred taxation asset, an element of this is taken to the income statement under IFRS, which amounts to a £0.5 million deferred taxation credit in the year ended 31 December 2004, and the remainder is taken directly to reserves. As at 31 December 2004 the cumulative deferred taxation asset on all such options was £1.2 million.

Dividends

Principal difference

Under UK GAAP, dividends proposed were provided for in the period to which they related. Under IFRS, dividends are only provided for when the dividend has been declared.

Impact

The requirement to provide for dividends only when they are declared resulted in an increase in total equity of £38.1 million at the opening balance sheet date and an increase of £43.5 million at 31 December 2004.

Consolidation of special purpose entities

Principal difference

The Group runs securitisation programmes in the UK, France and Italy whereby it sells certain trade receivables and receives an initial cash payment on a non-recourse basis in return. The securitised receivables are purchased by special purpose entities which under UK GAAP were not consolidated. Under SIC-12 (Consolidation — Special Purpose Entities), special purpose entities shall be consolidated when the substance of the relationship with the reporting entity indicates that the special purpose entities are controlled by the reporting entity. The substance of the relationship with the special purpose entities in the UK and in Italy requires those entities to be consolidated. On the basis that the Group does not meet the control indicators set out in SIC-12 there is no requirement to consolidate the French special purpose entity.

Impact

The consolidation of the UK and Italian special purpose entities had the effect of eliminating from operating expenses fixed charges of £0.8 million for the year ended 31 December 2004 and increasing finance costs by £0.8 million for the year ended 31 December 2004.

There was no impact on profits resulting from this change, which is merely a reclassification within the financial statements.

Computer software

Principal difference

Under UK GAAP, the Group's capitalised computer software was included within tangible fixed assets, whereas under IFRS it is classified as an intangible asset.

Impact

At the opening balance sheet date, computer software with a net book value of £14.7 million was reclassified from tangible fixed assets to intangible assets. At 31 December 2004 the net book value reclassified was £23.9 million. Depreciation amounting to £5.0 million was reclassified as amortisation under IFRS in the year ended 31 December 2004.

(50) TRANSITION TO IFRS (CONTINUED)

Other reclassifications

Principal differences

The other significant reclassifications for the Group under IFRS compared to UK GAAP were as follows:

- items that were treated as non-operating exceptional items under UK GAAP and relate to continuing operations are included in arriving at profit from operations; and

- the Group's share of the results of associates are now shown on a single line in the income statement.

Adoption of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement"

The Group has chosen not to restate comparatives for IAS 32 and IAS 39, and is applying these standards with effect from 1 January 2005. As a result, the relevant 2004 comparative information does not reflect the impact of these standards and is accounted for and presented on a UK GAAP basis. Set out below are the significant areas where the Group was affected from 1 January 2005, which are predominantly around the presentation of the balance sheet.

Securitised receivables

Principal difference

Under UK GAAP linked presentation was used by the Group to record receivables sold and non-recourse receipts received in respect of securitisation programmes in the UK, France and Italy. Under IAS 32 and IAS 39, linked presentation is no longer permitted and the non-recourse receipts are to be reported separately within liabilities. As a result of the Group's decision not to restate comparatives for IAS 32 and IAS 39, the non-recourse receipts in the balance sheet presented in the comparative information are presented under the UK GAAP basis of linked presentation.

Impact

Liabilities will include amounts relating to non-recourse receipts received in respect of securitisation programmes. Based on the position at 31 December 2004, this amounted to £400.8 million in the 2005 opening balance sheet. There is no impact on reserves resulting from these changes, which are merely reclassifications within the balance sheet.

Derivative instruments and hedging activities

Principal difference

Under IAS 32 and IAS 39, all derivative instruments are recognised in the balance sheet as financial assets or financial liabilities and are recorded at their fair value. The change in the fair value of a derivative instrument is taken immediately to the income statement where, provided fair value hedge accounting can be applied, it will be offset by a change in the fair value of the related hedged item. If the derivative is hedging the variability of future cash flows in a cash flow hedge which meet the hedging criteria, the change in the fair value of the derivative is taken directly to reserves and is subsequently recycled to the income statement when the hedged cash flow impacts profit and loss. The ineffective portions are taken immediately to the income statement.

The Group uses a mixture of debt and derivative financial instruments to hedge its non-sterling investments. The effective portion of the change in fair value of the hedging instrument is taken to reserves and is subsequently recycled to the income statement when the Group's investment is disposed of. The ineffective portion is taken immediately to the income statement.

(50) TRANSITION TO IFRS (CONTINUED)

Adoption of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" (continued)

Derivative instruments and hedging activities (continued)

Impact

The effective date of adoption of IAS 32 and IAS 39 for the Group is 1 January 2005. Excluding the impact of the grossing up of the securitised receivables as discussed above, the financial liabilities in the opening balance sheet in 2005 increased by £22.3 million, offset by related deferred taxation of £6.7 million, giving a net reduction to total equity of £15.6 million.

Available-for-sale financial assets

Principal difference

Under UK GAAP, listed investments are recorded on the balance sheet at the lower of cost and realisable value. Under IAS 32 and IAS 39, the Group's listed investments are categorised as available-for-sale and are recorded at fair value. Changes in fair value, together with any related deferred taxation, are taken directly to reserves and are recycled to the income statement when the investment is sold or is determined to be impaired.

Impact

The effective date of adoption of IAS 32 and IAS 39 for the Group is 1 January 2005. The financial assets in the opening balance sheet in 2005 increased by £3.9 million due to the recognition of listed investments at fair value, which together with the related deferred taxation liability of £0.4 million gave a net increase to total equity of £3.5 million.

(50) TRANSITION TO IFRS (CONTINUED)

Reconciliation of equity at 1 January 2004

	UK GAAP £million	IAS 12 £million	IAS 37 £million	Other and reclassifi-cations £million	IFRS £million
Assets					
Non-current assets					
Goodwill	172.3	—	—	—	172.3
Intangible assets	612.4	—	—	14.7	627.1
Property, plant and equipment	304.9	—	—	(15.6)	289.3
Investments in associates	240.9	—	—	—	240.9
Loans to associates	46.7	—	—	—	46.7
Other investments	60.3	—	—	—	60.3
Deferred tax assets	3.0	1.1	—	—	4.1
Trade and other receivables	41.0	—	—	—	41.0
	1,481.5	1.1	—	(0.9)	1,481.7
Current assets					
Inventories	728.8	—	—	—	728.8
Securitised receivables	448.8	—	—	—	448.8
Non-recourse receipts	(399.5)	—	—	—	(399.5)
Net securitised receivables	49.3	—	—	—	49.3
Trade and other receivables	1,084.6	—	—	(1.1)	1,083.5
Cash and cash equivalents	117.2	—	—	0.8	118.0
	1,979.9	—	—	(0.3)	1,979.6
Non-current assets classified as held for sale	—	—	—	1.8	1.8
Total assets	3,461.4	1.1	—	0.6	3,463.1
Liabilities					
Current liabilities					
Financial liabilities					
— borrowings	(257.5)	—	—	—	(257.5)
Trade and other payables	(1,500.2)	—	38.1	(0.8)	(1,462.9)
Current corporate tax liabilities	(23.6)	—	—	—	(23.6)
	(1,781.3)	—	38.1	(0.8)	(1,744.0)
Net current assets	198.6	—	38.1	(1.1)	235.6
Non-current liabilities					
Financial liabilities					
— borrowings	(686.9)	—	—	—	(686.9)
Deferred tax liabilities	(3.6)	(91.8)	—	0.4	(95.0)
Retirement benefit obligations	(49.3)	—	—	(0.5)	(49.8)
	(739.8)	(91.8)	—	(0.1)	(831.7)
Net assets	940.3	(90.7)	38.1	(0.3)	887.4
Equity					
Share capital	35.1	—	—	—	35.1
Share premium	444.2	—	—	—	444.2
Shares to be issued	25.1	—	—	—	25.1
Employee share trusts	(23.1)	—	—	—	(23.1)
Retained earnings	445.9	(90.7)	38.1	(0.3)	393.0
Other reserves	2.6	—	—	—	2.6
Shareholders' equity	929.8	(90.7)	38.1	(0.3)	876.9
Minority interests	10.5	—	—	—	10.5
Total equity	940.3	(90.7)	38.1	(0.3)	887.4

(50) TRANSITION TO IFRS (CONTINUED)

Reconciliation of equity at 31 December 2004

	UK GAAP £million	IFRS 3 amortisation £million	IFRS 3 disposals £million	IAS 12 £million	IAS 37 £million	Other and reclassifi-cations £million	IFRS £million
Assets							
Non-current assets							
Goodwill	157.2	10.0	(0.9)	8.9	—	0.4	175.6
Intangible assets	691.5	—	—	—	—	23.9	715.4
Property, plant and equipment	334.4	—	0.1	—	—	(28.5)	306.0
Investments in associates	327.3	5.1	—	—	—	—	332.4
Loans to associates	42.5	—	—	—	—	—	42.5
Other investments	42.6	—	—	—	—	—	42.6
Deferred tax assets	5.8	—	—	2.1	—	(0.1)	7.8
Trade and other receivables	40.2	—	—	—	—	—	40.2
	1,641.5	15.1	(0.8)	11.0	—	(4.3)	1,662.5
Current assets							
Inventories	692.2	—	—	—	—	—	692.2
Securitised receivables	456.1	—	—	—	—	—	456.1
Non-recourse receipts	(400.8)	—	—	—	—	—	(400.8)
Net securitised receivables	55.3	—	—	—	—	—	55.3
Trade and other receivables	1,027.6	—	—	—	—	(0.5)	1,027.1
Cash and cash equivalents	100.9	—	—	—	—	1.0	101.9
	1,876.0	—	—	—	—	0.5	1,876.5
Non-current assets classified as held for sale	—	—	(0.1)	—	—	1.8	1.7
Total assets	3,517.5	15.1	(0.9)	11.0	—	(2.0)	3,540.7
Liabilities							
Current liabilities							
Financial liabilities							
— borrowings	(175.8)	—	—	—	—	0.1	(175.7)
Trade and other payables	(1,425.0)	—	—	—	43.5	(1.8)	(1,383.3)
Current corporate tax liabilities	(37.5)	—	—	—	—	—	(37.5)
	(1,638.3)	—	—	—	43.5	(1.7)	(1,596.5)
Net current assets	237.7	—	—	—	43.5	(1.2)	280.0
Non-current liabilities							
Financial liabilities							
— borrowings	(736.1)	—	—	—	—	4.1	(732.0)
Deferred tax liabilities	(9.1)	—	—	(99.7)	—	0.4	(108.4)
Retirement benefit obligations	(52.5)	—	—	—	—	(0.5)	(53.0)
	(797.7)	—	—	(99.7)	—	4.0	(893.4)
Net assets	1,081.5	15.1	(0.9)	(88.7)	43.5	0.3	1,050.8
Equity							
Share capital	35.8	—	—	—	—	—	35.8
Share premium	485.7	—	—	—	—	—	485.7
Employee share trusts	(13.1)	—	—	—	—	—	(13.1)
Retained earnings	560.0	15.1	(0.9)	(88.7)	43.5	(8.2)	520.8
Translation reserve	—	—	—	—	—	8.5	8.5
Other reserves	2.7	—	—	—	—	—	2.7
Shareholders' equity	1,071.1	15.1	(0.9)	(88.7)	43.5	0.3	1,040.4
Minority interests	10.4	—	—	—	—	—	10.4
Total equity	1,081.5	15.1	(0.9)	(88.7)	43.5	0.3	1,050.8

(50) TRANSITION TO IFRS (CONTINUED)

Reconciliation of profit for the year ended 31 December 2004

	UK GAAP £million	IFRS 2 £million	IFRS 3 £million	IAS 12 £million	Associates reclassification £million	Other £million	IFRS £million
Revenue including share of associates' revenue	10,605.9	—	—	—	—	—	10,605.9
Less: share of associates' revenue	(1,707.5)	—	—	—	—	—	(1,707.5)
Revenue	8,898.4	—	—	—	—	—	8,898.4
Operating profit including share of associates' operating profit	275.9	(2.2)	15.1	—	—	0.9	289.7
Less: share of associates' operating profit	(41.0)	—	(5.1)	—	—	—	(46.1)
Operating profit	234.9	(2.2)	10.0	—	—	0.9	243.6
Share of associates' operating profit	41.0	—	5.1	—	(46.1)	—	—
Share of associates' post tax earnings	—	—	—	—	34.0	—	34.0
Profit on disposal of businesses	13.6	—	5.6	—	—	—	19.2
Amounts written off investments	(1.9)	—	—	—	—	—	(1.9)
Profit from operations	287.6	(2.2)	20.7	—	(12.1)	0.9	294.9
Finance income	14.3	—	—	—	(6.4)	0.1	8.0
Finance costs	(53.7)	—	—	—	4.6	(0.8)	(49.9)
Profit before tax	248.2	(2.2)	20.7	—	(13.9)	0.2	253.0
Tax	(81.0)	—	—	1.5	14.2	—	(65.3)
Profit for the year	167.2	(2.2)	20.7	1.5	0.3	0.2	187.7
Attributable to:							
Equity shareholders	167.1	(2.2)	20.7	1.5	—	0.2	187.3
Minority interests	0.1	—	—	—	0.3	—	0.4
	167.2	(2.2)	20.7	1.5	0.3	0.2	187.7

Explanation of material adjustments to the cash flow statement for the year ended 31 December 2004

The cash flow statement for the year ended 31 December 2004 is presented on page 44.

The material adjustments caused by the transition to IFRS on the cash flow statement for that year were as follows:

1. Tax paid is classified as an operating cash flow under IFRS, whereas under UK GAAP this was shown as a separate category of cash flow.
2. Interest paid is classified as an operating cash flow under IFRS, whereas under UK GAAP this was shown within the returns on investments category.
3. Dividends received from associates are classified within investing activities under IFRS, whereas under UK GAAP this was shown as a separate category of cash flow.
4. Cash flows arising from acquisitions and disposals are classified within investing activities under IFRS, whereas under UK GAAP these were shown as a separate category of cash flow.

(50) TRANSITION TO IFRS (CONTINUED)

Explanation of material adjustments to the cash flow statement for the year ended 31 December 2004 (continued)

5. Cash flows arising from capital expenditure and financial investment are classified within investing activities under IFRS, whereas under UK GAAP these were shown as a separate category of cash flow.

6. Dividends paid to equity shareholders are classified within financing activities under IFRS, whereas under UK GAAP these were shown as a separate category of cash flow.

7. The definition of cash and cash equivalents under IFRS includes money market borrowings maturing within one week.

Beneath the IFRS cash flow statement a reconciliation of the increase in cash and cash equivalents to net borrowings is provided. Under IFRS, net borrowings are defined by the Group as borrowings net of cash and cash equivalents and derivative financial instruments. This definition is consistent with the definition of net borrowings under UK GAAP. The only significant difference between the net borrowings amount at 31 December 2004 between IFRS and UK GAAP is in respect of the land element of certain leases for land and buildings. Under UK GAAP these were treated wholly as finance leases, whilst under IFRS it is necessary to split out the land from the building element and consider these separately. In some instances, under IFRS the land element no longer met the definition of a finance lease and is accounted for as an operating lease. The effect of this different treatment is to decrease net borrowings under IFRS by £4.2 million at 31 December 2004. The total decrease in net borrowings under IFRS at 31 December 2004 was £5.2 million.

Deloitte.

Independent auditors' report
to the members of Alliance UniChem Plc

Introduction

We have audited the financial statements of Alliance UniChem Plc for the year ended 31 December 2004 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, the Group statement of total recognised gains and losses, the reconciliation of movements in Group shareholders' funds, the note on historic cost profits and losses, and the related notes numbered 1 to 36. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Board report on remuneration that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As described in the Directors' responsibilities statement, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of other information contained in the Annual Report including the Board report on remuneration. Our responsibility is to audit the financial statements and the part of the Board report on remuneration described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Board report on remuneration described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Board report on corporate governance reflects the Company's compliance with the nine provisions of the July 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Report of the Directors and other information contained in the Annual Report for the above year as described in the contents section, including the unaudited part of the Board report on remuneration and the unaudited pro forma information shown in the primary financial statements, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Board report on remuneration described as being audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Board report on remuneration described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Board report on remuneration described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit of the Group for the year then ended; and

- the financial statements and the part of the Board report on remuneration described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors, London
24 February 2005

Group profit and loss account
for the year ended 31 December 2004

Unaudited pro forma 2004 €million		Note	2004 £million	2003 £million
	Turnover: Group and share of associated undertakings —			
15,643.7	continuing activities		**10,605.9**	9,820.2
(2,518.6)	Less: share of associated undertakings		**(1,707.5)**	(1,020.9)
13,125.1	**Turnover** — continuing operations	3,4	**8,898.4**	8,799.3
346.5	**Group operating profit** — continuing operations	3	**234.9**	217.7
60.5	Share of operating profit in associated undertakings		**41.0**	32.1
407.0	**Total operating profit**	4	**275.9**	249.8
20.0	Exceptional items — profit on disposal of businesses	6a	**13.6**	—
(2.8)	Exceptional items — amounts written off investments	6b	**(1.9)**	—
(58.1)	Net interest payable and similar charges	7	**(39.4)**	(53.5)
	Profit on ordinary activities before taxation, amortisation			
371.7	of intangible assets and exceptional items		**252.0**	209.9
366.1	**Profit on ordinary activities before taxation**	8	**248.2**	196.3
(119.5)	Tax on profit on ordinary activities	9	**(81.0)**	(67.2)
246.6	Profit on ordinary activities after taxation		**167.2**	129.1
(0.1)	Equity minority interests		**(0.1)**	(0.6)
246.5	**Profit for the financial year**		**167.1**	128.5
(95.9)	Dividends	10	**(65.0)**	(57.1)
150.6	Retained profit for the financial year		**102.1**	71.4
	Earnings per share	11		
	Basic		**47.7p**	37.6p
	Diluted		**47.1p**	37.3p
	Basic, before amortisation of intangible assets and exceptional items		**48.7p**	41.6p
	Diluted, before amortisation of intangible assets and exceptional items		**48.2p**	41.2p

Balance sheets
as at 31 December 2004

Unaudited pro forma 2004 €million		Note	Group 2004 £million	Group 2003 £million	Company 2004 £million	Company 2003 £million
	Fixed assets					
1,199.2	Intangible assets	12	**848.7**	784.7	**—**	—
472.5	Tangible assets	13	**334.4**	304.9	**0.4**	0.5
582.7	Investments	14	**412.4**	347.9	**1,314.1**	1,394.8
2,254.4			**1,595.5**	1,437.5	**1,314.5**	1,395.3
	Current assets					
978.1	Stocks	15	**692.2**	728.8	**—**	—
644.4	Securitised receivables		**456.1**	448.8	**—**	—
(566.3)	Non-recourse receipts		**(400.8)**	(399.5)	**—**	—
78.1	Net securitised receivables	16	**55.3**	49.3	**—**	—
1,517.0	Other debtors	17	**1,073.6**	1,128.6	**7.7**	10.5
142.6	Cash at bank and in hand	18	**100.9**	117.2	**8.5**	28.9
2,715.8			**1,922.0**	2,023.9	**16.2**	39.4
	Creditors: amounts falling due within one year					
(248.4)	Borrowings	18	**(175.8)**	(257.5)	**(18.0)**	(45.8)
(2,066.5)	Other creditors	20	**(1,462.5)**	(1,523.8)	**(69.0)**	(182.2)
(2,314.9)			**(1,638.3)**	(1,781.3)	**(87.0)**	(228.0)
400.9	**Net current assets/(liabilities)**		**283.7**	242.6	**(70.8)**	(188.6)
2,655.3	**Total assets less current liabilities**		**1,879.2**	1,680.1	**1,243.7**	1,206.7
	Creditors: amounts falling due after more than one year					
(1,040.1)	Borrowings	18	**(736.1)**	(686.9)	**(557.3)**	(563.7)
(35.7)	**Provisions for liabilities and charges**	21	**(25.3)**	(18.6)	**—**	—
1,579.5	**Net assets excluding net pension liabilities**		**1,117.8**	974.6	**686.4**	643.0
(51.3)	Net pension liabilities	22	**(36.3)**	(34.3)	**—**	—
1,528.2	**Net assets including net pension liabilities**		**1,081.5**	940.3	**686.4**	643.0
	Capital and reserves					
50.6	Called up share capital	23	**35.8**	35.1	**35.8**	35.1
686.3	Share premium account	24	**485.7**	444.2	**485.7**	444.2
—	Shares to be issued		**—**	25.1	**—**	25.1
(18.5)	Investment in own shares	25	**(13.1)**	(23.1)	**(13.1)**	(23.1)
3.8	Capital reserve	24	**2.7**	2.6	**—**	—
791.3	Profit and loss account	24	**560.0**	445.9	**178.0**	161.7
1,513.5	**Equity shareholders' funds**		**1,071.1**	929.8	**686.4**	643.0
14.7	Minority interests		**10.4**	10.5	**—**	—
1,528.2	**Total capital employed**		**1,081.5**	940.3	**686.4**	643.0

The financial statements were approved by the Board on 24 February 2005 and are signed on its behalf by:

I. K. Meakins
G. R. Fairweather
Directors

Group cash flow statement
for the year ended 31 December 2004

Unaudited pro forma 2004 €million		Note	2004 £million	2003 £million
457.4	**Net cash inflow from operating activities**	27a	**310.1**	322.3
6.3	Dividends received from associated undertakings		**4.3**	3.3
(65.9)	Returns on investments and servicing of finance	27b	**(44.7)**	(50.7)
(72.3)	Taxation		**(49.0)**	(46.2)
(64.6)	Capital expenditure and financial investment	27c	**(43.8)**	(42.8)
(157.8)	Acquisitions and disposals	27d	**(107.0)**	(46.8)
(46.8)	Equity dividends paid		**(31.7)**	(30.8)
56.3	**Cash inflow before financing**		**38.2**	108.3
	Financing			
2.8	Issue of ordinary share capital		**1.9**	2.0
4.0	Net cash inflow/(outflow) from increase/(decrease) in debt and lease financing	28	**2.7**	(80.3)
6.8	Net cash inflow/(outflow) from financing		**4.6**	(78.3)
63.1	**Increase in cash in the year**		**42.8**	30.0
	Reconciliation of net cash flow to movement in net borrowings			
	Increase in cash in the year		**42.8**	30.0
	Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	28	**(2.7)**	80.3
	Decrease in net borrowings resulting from cash flows		**40.1**	110.3
	Borrowings acquired with businesses		**—**	(0.3)
	Finance leases entered into		**(13.3)**	—
	Loan notes issued for non-cash consideration	26	**(0.7)**	(0.4)
	Currency translation differences		**(9.9)**	(56.6)
	Decrease in net borrowings for the year		**16.2**	53.0
	Net borrowings at 1 January		**(827.2)**	(880.2)
	Net borrowings at 31 December	29	**(811.0)**	(827.2)

Group statement of total recognised gains and losses
for the year ended 31 December 2004

	Note	2004 £million	2003 £million
Profit for the financial year		**167.1**	128.5
Actuarial loss on defined benefit pension schemes	22	**(7.9)**	(17.1)
Deferred tax associated with defined benefit pension schemes		**2.6**	5.0
Currency translation differences on foreign currency net investments		**8.4**	13.8
Tax on currency translation differences on foreign currency borrowings		**(0.3)**	0.4
Total recognised gains and losses relating to the year		**169.9**	130.6

Reconciliation of movements in Group shareholders' funds
for the year ended 31 December 2004

	Note	2004 £million	2003 £million
At 1 January		**929.8**	821.0
Total recognised gains and losses for the financial year		**169.9**	130.6
Dividends	10	**(65.0)**	(57.1)
Shares issued	23	**29.8**	25.0
Shares to be issued		**—**	7.4
Decrease in estimate of shares to be issued on acquisitions		**(12.7)**	—
Goodwill written back on disposals		**6.5**	—
Utilisation of accrual for long-term incentive plan		**2.5**	—
Consideration received on sale of own shares		**10.3**	2.9
At 31 December		**1,071.1**	929.8

Note of historical cost profits and losses
for the year ended 31 December 2004

There were no material differences between the reported profit on ordinary activities before taxation and the retained profit and their historical cost equivalents for the year. Similarly there were no such differences in 2003.

Notes to the financial statements
for the year ended 31 December 2004

(1) ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with United Kingdom generally accepted accounting principles and applicable accounting standards. The principal accounting policies adopted within that convention are set out below. They have all been applied consistently throughout the year and the preceding year.

An unaudited memorandum disclosure has been made on the face of the primary financial statements to show the Euro equivalents, using the average exchange rate for the Group profit and loss account and Group cash flow statement, and the closing exchange rate for the Group balance sheet as disclosed in note 2. In addition, profit on ordinary activities before taxation, amortisation of intangible assets and exceptional items has been disclosed on the face of the Group profit and loss account to assist understanding.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company, its subsidiary undertakings and the Group's shares of the results and net assets of associated undertakings and joint ventures. The results of undertakings acquired or disposed of during the year are consolidated in the Group financial statements for the period that the Group has control. All material undertakings within the Group make up their accounts to 31 December.

Acquisitions

Businesses acquired are accounted for using the acquisition method. On the acquisition of a business, or an interest in an associate, fair values reflecting conditions at the date of acquisition are attributed to the net assets including retail pharmacy licences acquired. Adjustments are also made to bring accounting policies into line with those of the Group. Where statutory merger relief is applicable, the difference between the fair value of the business acquired and the nominal value of shares issued as purchase consideration is treated as a merger reserve.

Goodwill

The excess of the purchase price over the fair value of net assets (including retail pharmacy licences) of businesses acquired in the year is capitalised and amortised over its useful economic life, up to a maximum of 20 years. Goodwill acquired prior to 1998 was written off against reserves, and will be charged through the profit and loss account in the event of subsequent disposal.

Retail pharmacy licences

Retail pharmacy licences, being the exclusive right to be reimbursed for the dispensing of prescription medicines from a specified location, are capitalised where there is an asset that can be separated from the other identifiable assets that together form a retail pharmacy business. Where they have a finite economic life they are amortised over that economic life. Where they do not have a finite economic life they are not amortised and are subjected to an annual impairment test. The cost of retail pharmacy licences less any impairment in value and any amortisation are included in intangible fixed assets.

(1) ACCOUNTING POLICIES (CONTINUED)

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write down the cost of these assets to their estimated residual values on a straight-line basis over the period of their estimated useful economic lives:

Freehold buildings — 50 years
Long and short leasehold properties — the shorter of the period of the lease and 50 years
Furniture, fixtures and equipment — between three and ten years
Motor vehicles — between three and ten years

Freehold land is not depreciated.

Investments

Investments are stated at cost less provisions for impairment.

Stocks

Stocks consist of goods held for resale and are valued at the lower of cost and net realisable value.

Securitised receivables

Where the Group has sold trade receivables and received an initial cash payment on a non-recourse basis in return, the gross amount of the trade receivables sold is disclosed on the face of the balance sheet as securitised receivables and the amounts received as non-recourse receipts. The Group retains an interest in the receivables represented by the net of these two amounts.

Charges payable in respect of receivables so securitised that are fixed are included within administration expenses. Costs that vary according to a principal amount, an interest rate and a time period are treated as net interest payable and similar charges.

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law, at the balance sheet date. Deferred tax is not provided on timing differences arising from either the revaluation of fixed assets or rolled over gains where there is no commitment to sell the asset. Deferred tax is only provided on unremitted earnings of subsidiaries and associates where there is a commitment to remit the earnings. Deferred tax assets are recognised to the extent that they are regarded as more likely than not to be recovered. Deferred tax assets and liabilities are not discounted.

Employee Share Ownership Plans (ESOPs)

Assets and liabilities held by ESOPs are included in the balance sheet where the Group has de facto control of the shares held by the ESOP Trust. The shares of the Company held by the ESOP Trust are deducted in arriving at shareholders' funds.

Turnover

Turnover is the amount derived from the sale of goods and services in the normal course of business outside the Group, net of trade discounts, value added tax and other sales-related taxes. Turnover is recognised at the point at which title passes.

(1) ACCOUNTING POLICIES (CONTINUED)

Pensions

The Group accounts for pension schemes in accordance with FRS 17 "Retirement Benefits". For defined contribution schemes, contributions are charged to operating profit as payable in respect of the accounting period. For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period the vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Where defined benefit schemes are funded, the assets of the scheme are held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated on the balance sheet date. The resulting defined benefit asset or liability, net of the related deferred taxation, is presented separately after other net assets on the face of the balance sheet.

Foreign exchange

The profit and loss accounts and cash flows of undertakings with a reporting currency other than Sterling are translated into Sterling at average rates of exchange, other than substantial exceptional items that are translated at the rate on the date of the transaction. The adjustment to closing rates is taken to the statement of total recognised gains and losses.

Balance sheets are translated at closing rates. Exchange differences arising on the re-translation at closing rates of the opening balance sheets of undertakings with a reporting currency other than Sterling are taken to the statement of total recognised gains and losses, less exchange differences arising on related currency borrowings and financial instruments. Tax charges and credits arising on such items are also taken to reserves. Other currency translation differences are taken to the profit and loss account.

The results, assets and liabilities of undertakings in hyper-inflationary economies are adjusted to reflect current price levels before translation, taking any gain or loss on the net monetary position through the profit and loss account.

Transactions in currencies other than the reporting currency of the undertaking are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related foreign currency contract.

Leased assets

Assets held under finance leases are capitalised and depreciated over the estimated useful life of the asset. The capital elements of future lease obligations are recorded as liabilities, while the finance charges are allocated over the primary period of the lease in proportion to the capital element of the lease outstanding. Costs of operating leases are charged to the profit and loss account on a straight-line basis.

Derivatives and other financial instruments

The Group uses derivative financial instruments to hedge its exposures to fluctuations in interest and foreign exchange rates. Instruments accounted for as hedges are structured so as to reduce the market risk associated with the underlying transaction being hedged and are designated as a hedge at the inception of the contract. If the underlying transaction to a hedge ceases to exist, the hedge is typically cancelled and the profit or loss recognised immediately.

(1) ACCOUNTING POLICIES (CONTINUED)

Derivatives and other financial instruments (continued)

Receipts and payments on interest rate instruments are recognised on an accruals basis over the life of the instrument. Foreign exchange contracts hedging balance sheet assets and liabilities are revalued at closing rates and exchange differences arising are taken to the statement of total recognised gains and losses. Gains and losses on contracts hedging forecast transactional cash flows, and on option instruments hedging the Sterling value of foreign currency denominated income, are recognised in the hedged periods.

Cash flows associated with derivative financial instruments are classified in the cash flow statement in a manner consistent with those of the transactions being hedged. Finance costs associated with debt issuances are charged to the profit and loss account over the life of the issue.

(2) EXCHANGE RATES

The significant exchange rates relative to Sterling used in the preparation of the financial statements are as follows:

	Average		Year end	
	2004	2003	**2004**	2003
Euro	**1.475**	1.443	**1.413**	1.419
Czech Koruna	**47.20**	46.01	**42.93**	45.97
Norwegian Kroner	**12.38**	11.59	**11.64**	11.91
Swiss Franc	**2.279**	2.198	**2.185**	2.214
Turkish Lira ('000)			**2,596**	2,476

(3) GROUP OPERATING PROFIT

	2004 £million	2003 £million
Turnover	**8,898.4**	8,799.3
Cost of sales	**(8,014.0)**	(7,965.2)
Gross profit	**884.4**	834.1
Administrative expenses	**(651.4)**	(618.4)
	233.0	215.7
Other operating income	**1.9**	2.0
Group operating profit	**234.9**	217.7

Distribution costs are considered to be a component of cost of sales, due to the nature of the Group's business, and as such are not separately disclosed.

All transactions are derived from continuing operations.

(4) SEGMENTAL ANALYSIS

	Turnover 2004 £million	Total operating profit before amortisation of intangible assets 2004 £million	Total operating profit after amortisation of intangible assets 2004 £million	Turnover 2003 £million	Total operating profit before amortisation of intangible assets 2003 £million	Total operating profit after amortisation of intangible assets 2003 £million
Wholesale Northern Europe	**2,897.6**	**90.2**	**83.8**	2,899.8	84.3	79.3
Wholesale Southern Europe	**5,684.6**	**77.0**	**73.5**	5,618.9	74.4	70.9
Retail — Europe	**1,222.6**	**96.1**	**95.6**	1,107.4	79.3	78.9
Corporate	**—**	**(18.0)**	**(18.0)**	—	(11.4)	(11.4)
Intra-Group	**(906.4)**	**—**	**—**	(826.8)	—	—
Group	**8,898.4**	**245.3**	**234.9**	8,799.3	226.6	217.7
Share of operating profit in associated undertakings	**—**	**46.1**	**41.0**	—	36.8	32.1
Total	**8,898.4**	**291.4**	**275.9**	8,799.3	263.4	249.8

The analysis of turnover by destination is not materially different from the analysis of turnover by origin.

	2004 £million	2003 £million
Analysis of net assets		
Wholesale Northern Europe	**320.8**	341.0
Wholesale Southern Europe	**568.6**	568.8
Retail — Europe	**758.4**	666.8
Corporate	**5.3**	11.7
Net operating assets	**1,653.1**	1,588.3
Associated undertakings	**369.8**	287.6
Proposed dividends	**(43.5)**	(38.1)
Taxation	**(50.6)**	(36.0)
Net borrowings	**(811.0)**	(827.2)
Net pension liabilities	**(36.3)**	(34.3)
	1,081.5	940.3

(5) STAFF COSTS

The average number of persons employed by the Group, including Directors and part-time staff, was:

	2004	2003
Wholesale Northern Europe	**4,927**	5,039
Wholesale Southern Europe	**7,306**	7,274
Retail — Europe	**10,371**	9,785
Corporate	**87**	62
	22,691	22,160

Costs incurred in respect of these employees were:

	2004 £million	2003 £million
Wages and salaries	**364.3**	333.0
Social security costs	**73.0**	64.7
Other pension costs (see note 22)		
— amounts within operating profit		
— amounts included as other finance costs	**12.6**	13.0
— amounts recognised in statement of total recognised gains and	**1.0**	1.0
losses	**7.9**	17.1
	458.8	428.8

Directors' emoluments for the financial year ended 31 December 2004 are provided in the Board report on remuneration.

(6a) EXCEPTIONAL ITEMS — PROFIT ON DISPOSAL OF BUSINESSES

During the year a number of non-core businesses within the UK wholesale operations were disposed of. The assets disposed of included £17.6 million of goodwill of which £11.1 million was capitalised within intangible fixed assets and £6.5 million had been previously written off directly to reserves.

(6b) EXCEPTIONAL ITEMS — AMOUNTS WRITTEN OFF INVESTMENTS

The amounts written off investments relate to the Group's residual US investment in a central dispensing business.

(7) NET INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £million	2003 £million
Interest payable		
Bank loans and overdrafts	**23.9**	34.0
Loan notes	**19.7**	21.5
Other loans	**1.0**	0.9
Finance charges payable on securitised receivables	**2.7**	2.9
Finance charges payable on finance leases	**0.6**	0.4
Associate interest payable	**4.6**	3.1
	52.5	62.8
Interest receivable		
Bank deposit interest receivable	**(1.2)**	(1.2)
Other finance income	**(6.7)**	(8.3)
Associate interest receivable	**(6.4)**	(1.7)
	(14.3)	(11.2)
Other finance costs		
Net return on defined benefit pension schemes (see note 22)	**1.0**	1.0
Discount on deferred acquisition consideration	**0.2**	0.9
	1.2	1.9
	39.4	53.5

(8) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation has been arrived at after charging:

		2004 £million	2003 £million
Depreciation of owned assets		**41.0**	40.5
Depreciation of assets held under finance leases		**0.8**	0.7
Total depreciation of tangible fixed assets		**41.8**	41.2
Goodwill amortisation — subsidiary undertakings		**10.0**	8.6
Goodwill amortisation — associated undertakings		**5.1**	4.7
Amortisation of retail pharmacy licences		**0.4**	0.3
Total amortisation of intangible assets		**15.5**	13.6
Administration costs of securitised receivables		**4.5**	5.1
Loss/(profit) on disposal of fixed assets		**0.4**	(9.7)
Operating lease rentals	— land and buildings	**25.0**	21.3
	— furniture, fixtures and equipment	**1.3**	2.5
	— motor vehicles	**7.2**	5.6
Audit fees	— principal auditors	**1.5**	0.9
	— other auditors	**0.1**	0.4

(8) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (CONTINUED)

Audit fees include amounts paid in connection with IFRS information relating to 2004 and £0.1 million (2003 £0.1 million) for the audit of the Company by the principal auditors. In addition to audit fees, other fees paid to the auditors, including fees capitalised, were as follows:

	Principal auditors £million	Other auditors £million	**2004 £million**	2003 £million
Due diligence reviews	0.1	—	**0.1**	0.2
Taxation services	0.1	—	**0.1**	1.0
Other	0.1	—	**0.1**	0.1
	0.3	—	**0.3**	1.3

(9) TAX ON PROFIT ON ORDINARY ACTIVITIES

	2004 £million	2003 £million
UK corporation tax		
Current tax on income for the year at 30% (2003 30%)	**57.4**	55.3
Double taxation relief	**(27.4)**	(35.7)
	30.0	19.6
Overseas tax		
Current tax on income for the year	**28.5**	30.1
Adjustment in respect of prior years	**2.5**	1.3
	31.0	31.4
Associated undertakings — current tax	**14.2**	8.4
Current tax charge	**75.2**	59.4
Deferred tax		
UK	**2.2**	0.2
Overseas	**4.6**	5.8
Adjustment in respect of prior years	**(2.8)**	0.8
	4.0	6.8
Deferred tax on defined benefit pension schemes	**1.8**	1.0
Deferred tax charge	**5.8**	7.8
	81.0	67.2

All charges for deferred tax in the current and prior years have arisen due to the origination and reversal of timing differences.

Alliance UniChem's principal operations are in Europe and the appropriate standard rate of tax is the average of the standard tax rates in the countries of operation, weighted by the amount of profit on ordinary activities before taxation. The reconciliation of expected tax charge using this standard tax rate of 31.5% (2003 31.8%) to the actual current tax charge is as follows:

	2004 £million	2003 £million
Profit on ordinary activities before taxation, amortisation of intangible assets and exceptional items	**252.0**	209.9
Amortisation of intangible assets	**(15.5)**	(13.6)
Exceptional items	**11.7**	—
Profit on ordinary activities before taxation	**248.2**	196.3

(9) TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

	2004 £million	2003 £million
Expected tax charge at standard tax rate	**78.2**	62.4
Goodwill amortisation	**4.9**	4.3
Exceptional items	**(3.6)**	—
Permanent timing differences	**4.8**	1.2
Income taxed at lower rates	**(2.3)**	—
Exempt capital gains	**—**	(1.9)
Timing differences in deferred tax	**(8.5)**	(7.0)
Tax losses brought forward and utilised in year	**(0.9)**	(1.2)
Unrelieved tax losses arising in year	**0.1**	0.3
Adjustment in respect of prior years	**2.5**	1.3
Current tax charge	**75.2**	59.4

(10) DIVIDENDS

	2004 £million	2003 £million
Interim paid, net 6.25 pence (2003 5.7 pence)	**21.5**	19.0
Final proposed, net 12.25 pence (2003 11.0 pence)	**43.5**	38.1
	65.0	57.1

Under the terms of the trust, the dividend receivable in respect of the shares held by the 1992 Employee Trust is 0.001 pence per share.

(11) EARNINGS PER SHARE

	2004			2003		
	Profit for the financial year £million	Weighted average number of shares million	Earnings per share pence	Profit for the financial year £million	Weighted average number of shares million	Earnings per share pence
Basic	**167.1**	**350.6**	**47.7**	128.5	341.4	37.6
Potentially dilutive share options	**—**	**3.0**	**(0.4)**	—	1.0	(0.1)
Deferred acquisition consideration	**0.2**	**1.5**	**(0.2)**	0.9	4.9	(0.2)
Diluted	**167.3**	**355.1**	**47.1**	129.4	347.3	37.3
Basic	**167.1**	**350.6**	**47.7**	128.5	341.4	37.6
Amortisation of intangible assets	**15.5**	**—**	**4.4**	13.6	—	4.0
Exceptional items	**(11.7)**	**—**	**(3.4)**	—	—	—
Basic, before amortisation of intangible assets and exceptional items	**170.9**	**350.6**	**48.7**	142.1	341.4	41.6
Potentially dilutive share options	**—**	**3.0**	**(0.4)**	—	1.0	(0.1)
Deferred acquisition consideration	**0.2**	**1.5**	**(0.1)**	0.9	4.9	(0.3)
Diluted, before amortisation of intangible assets and exceptional items	**171.1**	**355.1**	**48.2**	143.0	347.3	41.2

Earnings per share are also calculated before amortisation of intangible assets and exceptional items, if any, since the Directors consider that this gives a useful additional indication of underlying performance.

(12) INTANGIBLE FIXED ASSETS

	Goodwill £million	Retail pharmacy licences £million	**Total £million**
Cost			
At 1 January 2004	204.0	614.2	**818.2**
Businesses acquired	5.3	76.2	**81.5**
Businesses disposed	(14.7)	—	**(14.7)**
Currency translation differences	1.3	3.4	**4.7**
At 31 December 2004	**195.9**	**693.8**	**889.7**
Amortisation			
At 1 January 2004	31.7	1.8	**33.5**
Charge for the year	10.0	0.4	**10.4**
Businesses disposed	(3.6)	—	**(3.6)**
Currency translation differences	0.6	0.1	**0.7**
At 31 December 2004	**38.7**	**2.3**	**41.0**
Net book value at 31 December 2004	**157.2**	**691.5**	**848.7**
Net book value at 31 December 2003	172.3	612.4	784.7

(13) TANGIBLE FIXED ASSETS

	Land and buildings					
Group	Freehold £million	Long leasehold £million	Short leasehold £million	Furniture, fixtures and equipment £million	Motor vehicles £million	**Total £million**
Cost						
At 1 January 2004	177.3	23.4	5.8	334.9	22.1	**563.5**
Additions	6.7	10.7	5.0	53.4	4.8	**80.6**
Businesses acquired	0.9	—	—	1.1	—	**2.0**
Disposals	(4.8)	—	(0.1)	(10.1)	(7.4)	**(22.4)**
Businesses disposed	(0.6)	(0.2)	(0.1)	(10.7)	(0.4)	**(12.0)**
Currency translation differences	1.1	—	—	2.2	—	**3.3**
At 31 December 2004	**180.6**	**33.9**	**10.6**	**370.8**	**19.1**	**615.0**
Depreciation						
At 1 January 2004	37.8	4.4	2.5	201.3	12.6	**258.6**
Charge for the year	3.5	0.3	0.4	33.7	3.9	**41.8**
Businesses acquired	0.3	—	—	0.2	—	**0.5**
Disposals	(2.1)	—	—	(6.4)	(5.8)	**(14.3)**
Businesses disposed	(0.3)	—	(0.1)	(7.1)	(0.2)	**(7.7)**
Currency translation differences	0.2	—	—	1.5	—	**1.7**
At 31 December 2004	**39.4**	**4.7**	**2.8**	**223.2**	**10.5**	**280.6**
Net book value at 31 December 2004	**141.2**	**29.2**	**7.8**	**147.6**	**8.6**	**334.4**
Net book value at 31 December 2003	139.5	19.0	3.3	133.6	9.5	304.9

Included within the Group cost of buildings and furniture, fixtures and equipment are assets in the course of construction of £24.4 million (2003 £19.4 million).

The tangible fixed assets of the Company, which are in relation to short leasehold land and buildings, are included above at a cost of £0.6 million (2003 £0.6 million) and cumulative depreciation of £0.2 million (2003 £0.1 million). There were no additions during the year and the depreciation charge was £0.1 million.

(13) TANGIBLE FIXED ASSETS (CONTINUED)

The Group cost of long leaseholds includes capitalised interest of £0.5 million (2003 £0.5 million).

Included within the Group tangible fixed assets are assets held under finance leases with the following net book values:

Group	2004 £million	2003 £million
Land and buildings	**31.6**	23.6
Furniture, fixtures and equipment	**—**	0.1
	31.6	23.7

(14) FIXED ASSET INVESTMENTS

Group	2004 £million	2003 £million
Associated undertakings	**369.8**	287.6
Other investments	**42.6**	60.3
	412.4	347.9

Group Associated undertakings	Goodwill on associated undertakings £million	Share of net assets of associated undertakings £million	Loans to associated undertakings £million	Total £million
At 1 January 2004	83.8	157.1	46.7	**287.6**
Adjustment in respect of prior year investments	(1.0)	—	—	**(1.0)**
Profit for the year	—	34.0	—	**34.0**
Amortisation of goodwill	(5.1)	—	—	**(5.1)**
Dividends	—	(4.3)	—	**(4.3)**
Additions	5.7	36.4	—	**42.1**
Transfer from other investments	—	14.4	—	**14.4**
Disposals	—	(2.3)	(0.2)	**(2.5)**
Loans repaid	—	—	(4.3)	**(4.3)**
Currency translation differences	0.6	8.0	0.3	**8.9**
At 31 December 2004	**84.0**	**243.3**	**42.5**	**369.8**

On 28 January 2004, the Group completed the purchase of 19% of the equity of Andreae-Noris Zahn AG ("ANZAG") at a total cost including expenses of £42.1 million, taking the total shareholding to 29.99%. As a result of the increase in the shareholding, ANZAG was accounted for as an associate from this date and the carrying value of the fixed asset investment of £14.4 million was transferred from other investments to investment in associated undertakings.

Loans to associated undertakings are provided at normal commercial rates.

The share of net assets of associated undertakings comprised:

	2004 £million	2003 £million
Share of fixed assets	**176.5**	143.0
Share of current assets	**524.3**	361.1
Share of liabilities due within one year	**(337.5)**	(227.2)
Share of liabilities due after more than one year	**(120.0)**	(119.8)
	243.3	157.1

(14) FIXED ASSET INVESTMENTS (CONTINUED)

Group **Other investments**	Other listed investments £million	Other unlisted investments £million	**Total £million**
At 1 January 2004	55.8	4.5	**60.3**
Transfer to associated undertakings	(14.4)	—	**(14.4)**
Businesses acquired	—	0.5	**0.5**
Impairment provision	—	(2.2)	**(2.2)**
Disposals	—	(1.0)	**(1.0)**
Currency translation differences	(0.6)	—	**(0.6)**
At 31 December 2004	**40.8**	**1.8**	**42.6**

Company	Shares in Group undertakings £million	Loans to Group undertakings £million	Shares in associated undertakings £million	**Total £million**
At 1 January 2004	200.0	1,150.6	44.2	**1,394.8**
Adjustment in respect of prior year acquisitions	—	—	(1.0)	**(1.0)**
Loans repaid	—	(81.7)	—	**(81.7)**
Currency translation differences	—	2.0	—	**2.0**
At 31 December 2004	**200.0**	**1,070.9**	**43.2**	**1,314.1**

The aggregate market value of the Group's other listed investments on 31 December 2004 was £44.7 million (2003 £57.6 million).

Details of subsidiary and associated undertakings are shown in notes 32 and 33.

(15) STOCKS

Stocks consist of goods held for resale. Their replacement cost does not differ significantly from the carrying value.

(16) SECURITISED RECEIVABLES

(a) French and Italian schemes

Receivables of £343.2 million (2003 £333.8 million) from French and Italian pharmacies have been securitised under five year programmes that mature in 2007. The Group is not obliged to support any losses in respect of the amounts advanced under the securitisation arrangements, being £300.8 million (2003 £299.5 million), nor does it intend to do so. The provider of these arrangements has agreed in writing that it will seek repayment of the finance as to both principal and interest only to the extent that sufficient funds are generated from the receivables discounted and that it will not seek recourse in any other form.

(b) UK scheme

In 2001, the Group entered into a five year agreement to sell UK receivables to Alliance No. 1 PLC ("Alliance"). Alliance has issued £100 million secured notes to independent investors to finance the purchase of the receivables. The Group has provided finance totalling £12.9 million (2003 £15.0 million), which is subordinated, representing the excess of the face value of the receivables sold over the £100 million received. The secured notes are serviceable only from the cash flows generated from the securitised receivables together with £12.9 million of finance provided by the Group.

Under the agreements with the note holders, the Group is not obliged to support any losses in respect of the securitised receivables other than to the extent of the subordinated loans and does not intend to do so.

The controlling interest in Alliance is held by a discretionary trust established for charitable purposes. The Group receives interest on the subordinated loans and is paid administrative fees by Alliance.

(16) SECURITISED RECEIVABLES (CONTINUED)

(b) UK scheme (continued)

Alliance is a quasi-subsidiary of the Group and is not consolidated, as it meets the requirements of linked presentation under FRS 5 "Reporting the substance of transactions". The summary financial position of Alliance was:

	2004 £million	2003 £million
Profit and loss		
Interest receivable	**6.1**	6.2
Interest payable	**(6.0)**	(6.2)
Net interest receivable	**0.1**	—
Administrative expenses	**—**	—
Profit for the financial year	**0.1**	—
Balance sheet		
Current assets — investments	**112.5**	115.1
— debtors	**0.5**	—
— cash at bank	**1.0**	0.8
Creditors due within one year	**(1.0)**	(0.5)
Creditors due in more than one year — debt securities	**(112.9)**	(115.4)
Net assets represented by equity shareholders' funds	**0.1**	—

At 31 December 2004 Group companies held £32.5 million (2003 £61.3 million) on behalf of Alliance, being amounts collected in respect of securitised receivables. These amounts were transferred to Alliance on 5 January 2005.

(17) OTHER DEBTORS

	Group		Company	
	2004 £million	2003 £million	2004 £million	2003 £million
Amounts falling due within one year				
Trade debtors	**844.7**	905.3	**—**	—
Amounts owed by subsidiary undertakings	**—**	—	**5.2**	—
Amounts owed by associated undertakings	**0.6**	0.4	**—**	—
Loans to customers	**48.6**	50.7	**—**	—
Other debtors and accrued income	**104.3**	97.2	**2.5**	3.9
Prepayments	**23.0**	27.8	**—**	—
Corporation tax recoverable	**6.4**	3.2	**—**	—
Deferred tax (see note 21)	**5.8**	3.0	**—**	—
Group relief receivable	**—**	—	**—**	6.6
	1,033.4	1,087.6	**7.7**	10.5
Amounts falling due after more than one year				
Trade debtors	**—**	0.8	**—**	—
Loans to customers	**39.4**	38.9	**—**	—
Other debtors	**0.8**	1.3	**—**	—
	40.2	41.0	**—**	—
Total	**1,073.6**	1,128.6	**7.7**	10.5

(18) NET BORROWINGS

	Group		Company	
	2004 £million	2003 £million	**2004 £million**	2003 £million
Amounts falling due within one year				
Bank overdrafts	**82.1**	156.8	**15.1**	17.3
Bank loans	**85.1**	70.7	**—**	—
Loan notes	**3.1**	28.8	**2.9**	28.5
Obligations under finance leases	**5.5**	1.2	**—**	—
	175.8	257.5	**18.0**	45.8
Amounts falling due after more than one year				
Bank loans	**178.4**	140.2	**14.5**	24.3
2008 Senior notes 6.63% (US$57 million)	**35.6**	35.4	**35.6**	35.4
2009 Senior notes 6.67% (US$113 million)	**70.6**	70.3	**70.6**	70.3
2011 Senior notes 6.55% (US$173 million)	**137.4**	136.8	**137.4**	136.8
2011 Senior notes 6.07% (€30 million)	**21.2**	21.1	**21.2**	21.1
2012 Senior notes 7.19% (US$300 million)	**226.0**	223.9	**226.0**	223.9
2017 Senior notes 7.01% (£50 million)	**52.0**	51.9	**52.0**	51.9
Obligations under finance leases	**14.9**	7.3	**—**	—
	736.1	686.9	**557.3**	563.7
Total borrowings	**911.9**	944.4	**575.3**	609.5
Cash at bank and in hand	**(100.9)**	(117.2)	**(8.5)**	(28.9)
Net borrowings	**811.0**	827.2	**566.8**	580.6

Interest on bank loans at the year end was at floating rates of between 1.06% and 9.40%, dependent upon the currency borrowed.

Loan notes totalling £2.9 million falling due within one year can be redeemed by the holders giving one month's notice before an interest payment date. However, if no notice is given, these notes will fall due at their maturity dates, which are between 2006 and 2014. At the year end these loan notes bore interest at floating rates of between 3.60% and 3.99% per annum.

The proceeds from the issue of Senior notes have been converted through cross-currency swaps into Euros, Swiss Francs, Sterling and Norwegian Kroner. At the same time, the underlying fixed interest rates have been swapped into floating rates of the relevant currency for the duration of the Senior notes. At year end, the Senior notes effectively bore interest at floating rates of between 2.11% and 6.42% per annum dependent upon currency. The amount reported against each Senior note represents the translation of the swapped currencies at year end exchange rates.

Within cash at bank and in hand, cheques collected in relation to the UK securitised receivables programme totalling £32.5 million (2003 £61.3 million) were awaiting clearing before being transferred to Alliance No. 1 PLC. Under the terms of the securitisation programme, cleared collections transferred to Alliance No. 1 PLC are returned the same day to Group companies as payment for new receivables. These amounts were transferred to Alliance No. 1 PLC on 5 January 2005. Excluding these amounts, cash at bank and in hand totalled £68.4 million (2003 £55.9 million).

(19) FINANCIAL INSTRUMENTS

The Group's approach to managing financial risk is described in the Financial review. Short-term debtors and creditors have been excluded from this note other than the currency profile of monetary assets and liabilities.

(a) Book and fair value of financial instruments

A comparison of book values and fair values of the Group's financial assets and liabilities is set out below:

	2004		2003	
	Book value £million	**Fair value £million**	Book value £million	Fair value £million
Primary financial instruments held to finance the Group's operations				
Cash at bank and in hand	**100.9**	**100.9**	117.2	117.2
Loans to associated undertakings	**42.5**	**42.5**	46.7	46.7
Other listed investments	**40.8**	**44.7**	55.8	57.6
Other unlisted investments	**1.8**	**1.8**	4.5	4.5
Debtors due after one year	**40.2**	**40.2**	41.0	41.0
Financial assets	**226.2**	**230.1**	265.2	267.0
Bank overdrafts	**(82.1)**	**(82.1)**	(156.8)	(156.8)
Bank loans	**(249.0)**	**(249.0)**	(196.9)	(196.9)
Loan notes	**(409.8)**	**(444.3)**	(460.4)	(483.1)
Obligations under finance leases	**(20.4)**	**(20.4)**	(8.5)	(8.5)
Total debt	**(761.3)**	**(795.8)**	(822.6)	(845.3)
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate derivatives	**—**	**(7.1)**	—	(11.9)
Cross currency derivatives	**(150.6)**	**(136.9)**	(121.8)	(99.2)
Financial liabilities	**(911.9)**	**(939.8)**	(944.4)	(956.4)

The fair values of fixed asset investments and interest rate and currency derivatives are based on market value. The fair values of the Senior notes are calculated using discounted cash flow methodology, based on third party estimates of the Group's credit spread above the benchmark swap curve. The fair value of all other financial instruments is approximately equal to book value due to either their short-term nature or their being at variable interest rates.

(b) Interest rate profile

The interest rate profile of financial assets and liabilities, after taking into account interest rate and currency derivative contracts, was as follows:

	At fixed interest rates £million	At floating interest rates £million	Non-interest bearing £million	**Total £million**
2004 financial assets				
Sterling	—	48.8	0.2	**49.0**
Euro	—	73.4	47.5	**120.9**
Other	2.3	52.5	1.5	**56.3**
	2.3	**174.7**	**49.2**	**226.2**
2003 financial assets				
Sterling	—	59.1	0.7	59.8
Euro	—	79.2	59.0	138.2
Other	—	64.5	2.7	67.2
	—	202.8	62.4	265.2

(19) FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate profile (continued)

Floating rate financial assets mainly comprise bank deposits and loans to associated undertakings which bear interest based on London interbank reference rates.

	Fixed rate financial liabilities					
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	At fixed interest rates £million	At floating interest rates £million	Impact of foreign currency swaps £million	Total £million
2004 financial liabilities						
Sterling	**6.3**	**17.9**	**27.5**	**23.2**	**(150.0)**	**(99.3)**
Euro	**3.9**	**1.8**	**366.6**	**319.2**	**164.5**	**850.3**
Other	**6.6**	**2.1**	**9.7**	**151.2**	**—**	**160.9**
			403.8	**493.6**	**14.5**	**911.9**
2003 financial liabilities						
Sterling	4.9	1.6	44.6	79.1	(100.0)	23.7
Euro	4.3	1.5	421.2	212.2	114.0	747.4
Other	6.4	2.6	12.0	161.3	—	173.3
			477.8	452.6	14.0	944.4

The Sterling fixed rate liabilities include a long-term property lease.

In addition to the amounts detailed in the above table, the Group has Sterling denominated floating financial liabilities of £100.0 million (2003 £100.0 million) and Euro denominated floating financial liabilities of £300.8 million (2003 £299.5 million) relating to non-recourse receipts.

At the outset of the UK securitisation programme, the Group swapped the Sterling non-recourse receipts to repay Euro denominated debt. These swaps and other short-term swaps used to convert Sterling cash to Euros to repay Euro denominated debt are shown in the table above. They are all on a floating rate basis.

The Group has further Euro denominated derivative financial instruments to hedge securitisation costs that vary according to interest rates, totalling £98.8 million (2003 £112.5 million). These instruments have a weighted average interest rate of 3.9% which is fixed for a weighted average period of 1.8 years (2003 4.3% and 1.5 years).

Floating rate financial liabilities mainly comprise bank overdrafts, loans and loan notes predominantly bearing interest at margins over London interbank reference rates.

(c) Currency profile

There are no significant unmatched currency exposures on monetary assets and liabilities after taking into account the effects of currency swaps and forward exchange contracts.

(19) FINANCIAL INSTRUMENTS (CONTINUED)

(d) Maturity profile of financial liabilities

An analysis of financial liabilities, by due date of repayment, is as follows:

	Bank overdrafts £million	Bank loans £million	Loan notes £million	Obligations under finance leases £million	Total £million
2004					
Within one year	**82.1**	**85.1**	**3.1**	**5.5**	**175.8**
Between one and two years	**—**	**63.3**	**—**	**1.3**	**64.6**
Between two and five years	**—**	**112.7**	**106.0**	**3.4**	**222.1**
Over five years	**—**	**2.4**	**436.8**	**10.2**	**449.4**
	82.1	**263.5**	**545.9**	**20.4**	**911.9**
2003					
Within one year	156.8	70.7	28.8	1.2	257.5
Between one and two years	—	12.4	—	1.4	13.8
Between two and five years	—	123.4	35.4	4.0	162.8
Over five years	—	4.4	504.0	1.9	510.3
	156.8	210.9	568.2	8.5	944.4

(e) Undrawn committed borrowing facilities

The maturity profile of the Group's undrawn committed facilities, where all conditions precedent had been met, at 31 December was:

	2004 £million	2003 £million
Within one year	**—**	0.8
Between two and five years	**126.6**	172.9
Total	**126.6**	173.7

(f) Hedging

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on hedging instruments, and movements therein, were as follows:

Unrecognised gains and losses	Gains £million	Losses £million	**Total £million**
At 1 January 2004	25.5	(14.8)	10.7
Arising in previous years that were recognised in the year	(16.0)	6.8	**(9.2)**
Arising before 1 January that were not recognised in the year	9.5	(8.0)	**1.5**
Arising in the year that were not recognised in the year	7.7	(2.6)	**5.1**
At 31 December 2004	17.2	(10.6)	**6.6**
Of which expected to be recognised:			
In 2005	7.3	(6.5)	**0.8**
After 2005	9.9	(4.1)	**5.8**

(20) OTHER CREDITORS

	Group		Company	
	2004 £million	2003 £million	**2004 £million**	2003 £million
Amounts falling due within one year				
Trade creditors	**1,130.9**	1,160.0	**—**	—
Amounts owed to subsidiary undertakings	**—**	—	**15.4**	132.6
Amounts owed to associated undertakings	**0.5**	4.1	**—**	—
Capital creditors	**6.6**	5.9	**—**	—
Corporation tax	**37.5**	23.6	**1.4**	—
Other taxation and social security	**75.3**	91.0	**—**	—
Other creditors	**111.3**	143.9	**3.5**	6.1
Accruals and deferred income	**56.9**	57.2	**5.2**	5.4
Proposed dividend	**43.5**	38.1	**43.5**	38.1
	1,462.5	1,523.8	**69.0**	182.2

(21) PROVISIONS FOR LIABILITIES AND CHARGES

Group	**Deferred tax £million**
At 1 January 2004	18.6
At 1 January 2004, asset recognised in debtors	(3.0)
Charge for the year	4.0
Business acquired	(0.2)
Currency translation differences	0.1
	19.5
Asset recognised in debtors	5.8
At 31 December 2004	**25.3**

The deferred tax asset at 31 December 2004 of £5.8 million represents £4.1 million losses expected to be utilised against profits arising in 2005 and £1.7 million of other timing differences.

The sources of deferred tax and the amount for which no provision has been made are as follows:

	Provided		Not provided	
Group	**2004 £million**	2003 £million	**2004 £million**	2003 £million
Capital allowances	**26.1**	22.6	**—**	(0.6)
Other timing differences	**4.7**	1.7	**—**	(0.1)
Unrelieved tax losses	**(12.8)**	(8.7)	**(2.9)**	(7.7)
Chargeable gains deferred by roll-over relief	**1.5**	—	**13.4**	14.4
Fixed asset revaluation	**—**	—	**4.6**	5.1
Capital losses	**—**	—	**(0.5)**	—
	19.5	15.6	**14.6**	11.1

No deferred tax has been provided on gains covered by roll-over relief as such tax, estimated to be £13.4 million (2003 £14.4 million), would only become payable if the replacement property was sold without roll-over relief being obtained. £4.6 million (2003 £5.1 million) of deferred tax has not been provided on fixed asset revaluations as such tax would only become payable if the fixed assets were sold without further roll-over relief being obtained.

(22) PENSIONS

The Group operates several pension arrangements; the Group's total pension cost included within operating profit was £12.6 million (2003 £13.0 million), being £5.7 million (2003 £7.2 million) in respect of its defined benefit pension arrangements and £6.9 million (2003 £5.8 million) in respect of its defined contribution arrangements.

UK scheme

The Group operates a principal UK pension scheme which has two plans: the UK Benefit Plan which is a funded defined benefit arrangement, and the UK Contribution Plan, which is a funded defined contribution arrangement. Both plans are administered by an independent company and their assets are held under trust separately from those of the Group.

The pension costs in respect of the UK benefit plan are assessed in accordance with the advice of Hewitt Bacon & Woodrow, an independent firm of actuaries. The most recent actuarial valuation used for this purpose was carried out as at 1 January 2003. This has been updated by Hewitt Bacon & Woodrow to take account of the requirements of FRS 17, in order to assess the liabilities at 31 December 2004.

Following the valuation, it was agreed to adopt an employer contribution rate of 10.9% of pensionable pay, effective from 1 January 2004. In addition annual payments of £5.5 million were agreed for 2003, 2004 and 2005 and further annual payments of £4.3 million for the subsequent 11 years. Previously, the rate payable had been 13.3% of pensionable pay since 1 January 2001.

Other schemes

The Group also sponsors a number of defined benefit plans outside of the UK, some of which are material.

In The Netherlands there is a defined benefit pension plan, which is administered by a separate pension fund. In France there are insured arrangements providing retirement and termination benefits.

In Norway many employees participate in an industry-wide multi-employer scheme operated by a government agency. During 2004, for the first time the agency provided an allocation of the assets and liabilities of the scheme to the participating members. The allocation was based on the proportion of total member contributions to the scheme. The Group's notional share of the surplus at 31 December 2004 calculated using this method was £2.1 million. Over the next few years, the agency intends to identify the assets and liabilities of the scheme by individual participant based on their specific service, and allocate these to current members. The results of this work may give a different allocation of the assets and liabilities from the notional allocation. Until this work is completed the scheme will continue to be accounted for as a defined contribution plan in accordance with FRS 17. In addition, in Norway there are two insured defined benefit schemes in place, which are accounted for as defined benefit schemes.

The costs of material defined benefit plans have been recognised in the Group financial statements in accordance with the requirements of FRS 17.

The financial assumptions for the non-UK plans are weighted averages of the assumptions used for the overseas plans included.

(22) PENSIONS (CONTINUED)

Other schemes (continued)

The main financial assumptions used by the actuaries at 31 December were:

	2004		2003		2002	
	UK benefit plan % pa	**Other European % pa**	UK benefit plan % pa	Other European % pa	UK benefit plan % pa	Other European % pa
Discount rate	**5.3**	**4.6**	5.4	5.4	5.4	5.5
Inflation rate	**2.9**	**2.0**	2.8	2.0	2.3	2.5
Salary increases	**3.9**	**2.4**	3.8	2.4	3.3	2.5
Pension in payment increases for members who joined:						
up to 31 December 1996 (pre-July 2003 service)	**5.0**	**1.1**	5.0	1.6	5.0	2.0
up to 31 December 1996 (post-June 2003 service)	**2.7**	**1.1**	2.7	1.6	—	—
from 1 January 1997	**2.7**	**1.1**	2.7	1.6	2.3	2.0

The market value of the assets and expected rates of return for the defined benefit schemes at 31 December were:

	2004		2003		2002	
	Expected long-term return % pa	**Value £million**	Expected long-term return % pa	Value £million	Expected long-term return % pa	Value £million
UK benefit plan						
Equities	**7.5**	**67.1**	7.8	56.8	7.5	40.8
Bonds	**4.9**	**24.0**	4.8	20.2	4.4	15.2
Other	**6.1**	**4.6**	4.3	1.8	4.0	2.7
		95.7		78.8		58.7
Other European benefit plans						
Equities	**7.0**	**5.9**	8.0	4.3	8.0	3.2
Bonds	**4.1**	**17.9**	5.1	16.4	5.1	13.5
Other	**4.8**	**6.4**	5.0	5.5	5.0	4.9
		30.2		26.2		21.6
Total		**125.9**		105.0		80.3

The value of the defined benefit pension scheme assets and liabilities can be summarised:

	2004			2003	2002
	UK benefit plan £million	**Other European £million**	**Total £million**	Total £million	Total £million
Total market value of assets	**95.7**	**30.2**	**125.9**	105.0	80.3
Present value of scheme liabilities	**(132.1)**	**(46.3)**	**(178.4)**	(153.5)	(115.1)
Deficit in the schemes	**(36.4)**	**(16.1)**	**(52.5)**	(48.5)	(34.8)
Related deferred tax asset	**10.7**	**5.5**	**16.2**	15.0	11.0
Net pension liability	**(25.7)**	**(10.6)**	**(36.3)**	(33.5)	(23.8)

The net pension liability in respect of other pension schemes at 31 December 2004 was £nil (2003 £0.8 million).

(22) PENSIONS (CONTINUED)

The following amounts have been recognised in the financial statements:

Profit and loss account	**UK benefit plan £million**	**Other European £million**	**Total £million**
			2004
Operating profit			
Current service cost	**(4.9)**	**(2.5)**	**(7.4)**
Curtailments/settlements	**0.2**	**—**	**0.2**
Past service cost	**—**	**1.5**	**1.5**
Charge to operating profit	**(4.7)**	**(1.0)**	**(5.7)**
Net interest payable and similar charges			
Expected return on pension scheme assets	**5.8**	**1.4**	**7.2**
Interest on pension scheme liabilities	**(6.3)**	**(1.9)**	**(8.2)**
Net return on defined benefit pension schemes	**(0.5)**	**(0.5)**	**(1.0)**
Net pension expense before taxation	**(5.2)**	**(1.5)**	**(6.7)**

Profit and loss account	UK benefit plan £million	Other European £million	Total £million
			2003
Operating profit			
Current service cost	(4.9)	(2.4)	(7.3)
Past service cost	—	0.1	0.1
Charge to operating profit	(4.9)	(2.3)	(7.2)
Net interest payable and similar charges			
Expected return on pension scheme assets	4.2	1.4	5.6
Interest on pension scheme liabilities	(4.6)	(2.0)	(6.6)
Net return on defined benefit pension schemes	(0.4)	(0.6)	(1.0)
Net pension expense before taxation	(5.3)	(2.9)	(8.2)

Statement of total recognised gains and losses	**UK benefit plan £million**	**Other European £million**	**Total £million**
			2004
Actual return on pension scheme assets less expected return on pension scheme assets	**3.2**	**0.9**	**4.1**
Experience gains and losses arising on the scheme liabilities	**(2.3)**	**(0.9)**	**(3.2)**
Changes in assumptions underlying the present value of the scheme liabilities	**(4.2)**	**(4.6)**	**(8.8)**
Actuarial losses recognised	**(3.3)**	**(4.6)**	**(7.9)**

Statement of total recognised gains and losses	UK benefit Plan £million	Other European £million	Total £million
			2003
Actual return on pension scheme assets less expected return on pension scheme assets	5.0	(0.3)	4.7
Experience gains and losses arising on the scheme liabilities	(7.8)	2.0	(5.8)
Changes in assumptions underlying the present value of the scheme liabilities	(15.9)	(0.1)	(16.0)
Actuarial (losses)/gains recognised	(18.7)	1.6	(17.1)

(22) PENSIONS (CONTINUED)

Movement in scheme deficits	2004 UK benefit plan £million	2004 Other European £million	2003 UK benefit plan £million	2003 Other European £million
Deficit at 1 January	(37.4)	(11.1)	(24.2)	(10.6)
Current service costs	(4.9)	(2.5)	(4.9)	(2.4)
Curtailments/settlements	0.2	—	—	—
Past service costs	—	1.5	—	0.1
Contributions	9.5	1.3	10.8	1.7
Other finance expense	(0.5)	(0.5)	(0.4)	(0.6)
Actuarial (losses)/gains	(3.3)	(4.6)	(18.7)	1.6
Currency translation differences	—	(0.2)	—	(0.9)
Deficits at 31 December	**(36.4)**	**(16.1)**	(37.4)	(11.1)

Details of experience gains and losses	2004 UK benefit plan £million	2004 Other European £million	2003 UK benefit plan £million	2003 Other European £million	2002 UK benefit plan £million	2002 Other European £million
Difference between expected and actual returns on scheme assets						
Amount	**3.2**	**0.9**	5.0	(0.3)	(13.6)	(1.2)
Percentage of scheme assets (%)	**3.3**	**3.0**	6.3	(1.1)	(23.2)	(5.6)
Experience gains and losses on scheme liabilities						
Amount	**(2.3)**	**(0.9)**	(7.8)	2.0	—	(0.3)
Percentage of present value of scheme liabilities (%)	**(1.7)**	**(1.9)**	(6.7)	5.4	—	(0.9)
Amount in Group statement of total recognised gains and losses						
Amount	**(3.3)**	**(4.6)**	(18.7)	1.6	(20.2)	0.3
Percentage of present value of scheme liabilities (%)	**(2.5)**	**(9.9)**	(16.1)	4.3	(24.4)	0.9

(23) SHARE CAPITAL

	Number million	Share capital 10p ordinary shares £million
Authorised share capital	**432.9**	**43.3**
Called up, issued and fully paid up		
At 1 January 2004	350.7	35.1
Shares issued during the year	7.5	0.7
At 31 December 2004	**358.2**	**35.8**

(23) SHARE CAPITAL (CONTINUED)

Details of shares allotted during the year were:

	Number million	Price paid per share £	**Consideration £million**
Share option exercises	0.5	2.14-4.80	**1.9**
Scrip elections in lieu of:			
2003 final dividend	3.2	5.43	**17.6**
2004 interim dividend	1.6	6.55	**10.3**
	5.3		**29.8**
Share issued on acquisitions and accrued in prior year	2.2	5.72	**12.4**
Share capital and share premium account movement	**7.5**		**42.2**
Of which:			
Share capital			0.7
Share premium account			41.5

Details of outstanding options over ordinary shares at 31 December 2004 were:

Year of grant	Price pence	**Outstanding 2004**	Outstanding 2003	Normally exercisable from
1990 Savings related scheme				
1997	214.00	**1,457**	136,168	01.07.04 to 31.12.04
1998	324.00	**—**	13,299	01.08.03 to 31.01.04
1998	324.00	**73,313**	78,968	01.08.05 to 31.01.06
1999	384.00	**527**	146,727	01.07.04 to 31.12.04
1999	384.00	**44,138**	45,095	01.07.06 to 31.12.06
2000	291.00	**—**	23,973	03.07.03 to 02.01.04
2000	291.00	**250,715**	264,739	03.07.05 to 02.01.06
2000	291.00	**108,197**	111,984	03.07.07 to 02.01.08
2001	463.00	**334**	246,769	01.07.04 to 31.12.04
2001	463.00	**167,947**	179,591	01.07.06 to 31.12.06
2001	463.00	**33,710**	35,454	01.07.08 to 31.12.08
2002	480.00	**238,582**	280,182	01.07.05 to 31.12.05
2002	480.00	**184,419**	208,805	01.07.07 to 31.12.07
2002	480.00	**45,388**	49,502	01.07.09 to 31.12.09
2003	337.00	**729,297**	836,823	01.07.06 to 31.12.06
2003	337.00	**484,319**	556,811	01.07.08 to 31.12.08
2003	337.00	**66,134**	82,354	01.07.10 to 31.12.10
2004	440.00	**478,349**	—	01.07.07 to 31.12.07
2004	440.00	**237,595**	—	01.07.09 to 31.12.09
2004	440.00	**76,912**	—	01.07.11 to 31.12.11
		3,221,333	3,297,244	
1990 Executive scheme				
1994	260.00	**—**	15,000	21.10.97 to 20.10.04
1995	269.00	**—**	372	18.10.98 to 17.10.05
		—	15,372	

(23) SHARE CAPITAL (CONTINUED)

Year of grant	Price pence	**Outstanding 2004**	Outstanding 2003	Normally exercisable from
1997 Discretionary scheme				
1997	268.50	**—**	36,872	13.06.00 to 12.06.04
1998	429.50	**66,000**	678,263	07.05.01 to 06.05.05
1999	442.00	**150,000**	544,500	14.05.02 to 13.05.06
1999	435.00	**—**	63,737	27.05.02 to 26.05.06
2000	379.00	**371,000**	843,199	23.03.03 to 22.03.07
2001	592.00	**707,000**	1,590,000	06.04.04 to 05.04.08
2002	609.00	**1,610,000**	1,850,000	09.04.05 to 08.04.09
2003	489.00	**1,907,000**	2,062,000	21.05.06 to 20.05.13
2004	556.00	**1,896,295**	—	19.03.07 to 18.03.14
		6,707,295	7,668,571	
1998 Long-term incentive plan				
2002	0.0001	—	9,852	19.03.02 to 18.03.12
2003	0.0001	—	106,352	17.04.03 to 16.04.13
2004	0.0001	**27,577**	—	20.03.04 to 19.03.14
		27,577	116,204	
I.K. Meakins share incentive plan				
2004	0.0001	**119,946**	—	01.12.05 to 01.12.14
		119,946	**—**	

(24) OTHER RESERVES

Group	**Share premium account £million**	**Capital reserve £million**	**Profit and loss account £million**
At 1 January 2004	444.2	2.6	445.9
Shares issued	41.5	—	—
Retained profit for the year	—	—	102.1
Transfer	—	0.1	(0.1)
Profit on sale of own shares	—	—	0.3
Actuarial loss on defined benefit pension schemes	—	—	(7.9)
Deferred tax associated with defined benefit pension schemes	—	—	2.6
Goodwill recycled on business disposals	—	—	6.5
Utilisation of accrual for long-term incentive plan	—	—	2.5
Currency translation differences	—	—	8.4
Tax on currency translation differences on foreign currency borrowings	—	—	(0.3)
At 31 December 2004	**485.7**	**2.7**	**560.0**
Company			
At 1 January 2004	444.2	—	161.7
Shares issued	41.5	—	—
Profit on sale of own shares	—	—	0.3
Retained profit for the year	—	—	16.0
At 31 December 2004	**485.7**	**—**	**178.0**

The capital reserve represents non-distributable reserves arising in some countries.

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements. The profit for the financial year dealt with in the profit and loss account of the Company was £81.0 million (2003 £55.9 million).

(25) INVESTMENT IN OWN SHARES

Group and Company	**2004 £million**	2003 £million
Employee share trusts		
At 1 January	**23.1**	26.1
Disposals	**(10.0)**	(3.0)
At 31 December	**13.1**	23.1

The Company has two employee share trusts, the 1992 Employee Trust and the Alliance UniChem Employee Share Trust. These trusts had a combined investment at 31 December 2004 of £13.1 million (2003 £23.1 million) in 2.9 million (2003 5.3 million) of the Company's shares. The market value of the holdings at 31 December 2004 was £21.9 million (2003 £27.3 million). Under the terms of the trust, the dividend receivable in respect of the shares held by the 1992 Employee Trust, which held 2.8 million of the Company's shares at 31 December 2004, is 0.001 pence per share. The trusts have been set up primarily to transfer shares to option scheme holders on exercise of their options with administrative costs absorbed by the Company.

(26) ACQUISITIONS

The Group has continued its development during the year through a number of business acquisitions that have been accounted for by the acquisition accounting method and are summarised for wholesale and retail acquisitions below.

Wholesale	**Book and provisional fair value at acquisition £million**
Assets acquired at book and fair value	
Fixed assets — tangible	**0.3**
Fixed assets — investments	**0.5**
Stocks	**0.2**
Debtors	**0.2**
Cash acquired	**0.1**
Creditors	**(1.5)**
Minority interests acquired	**0.5**
Assets acquired	**0.3**

	£million
Consideration paid	
Cash	**(3.9)**
Deferred consideration movement	**0.5**
	(3.4)
Purchased goodwill	**3.1**

There were no fair value alignments in respect of wholesale acquisitions.

(26) ACQUISITIONS (CONTINUED)

Retail	Book value at acquisition £million	Fair value adjustments £million	**Provisional fair value at acquisition £million**
Assets acquired at book and fair value			
Fixed assets — intangible	12.1	64.1	**76.2**
Fixed assets — tangible	1.2	—	**1.2**
Stocks	5.6	—	**5.6**
Debtors	6.2	—	**6.2**
Cash acquired	1.9	—	**1.9**
Creditors and provisions	(7.8)	—	**(7.8)**
Assets acquired	19.2	64.1	**83.3**

	£million
Consideration paid	
Cash	**(84.8)**
Loan notes	**(0.7)**
	(85.5)
Purchased goodwill	**2.2**

Retail acquisitions comprised the acquisition of 80 pharmacies in the UK, Norway and The Netherlands.

At 31 December 2004, cumulative goodwill written off to reserves for businesses acquired prior to 1998, net of that attributable to disposals, was £354.3 million (2003 £360.8 million).

(27) CASH FLOW STATEMENT

(a) Reconciliation of Group operating profit to net cash inflow from operating activities

	2004 £million	2003 £million
Group operating profit	**234.9**	217.7
Depreciation	**41.8**	41.2
Amortisation of goodwill	**10.0**	8.6
Amortisation of pharmacy licences	**0.4**	0.3
Loss/(profit) on disposal of fixed assets	**0.4**	(9.7)
Decrease/(increase) in stocks	**33.3**	(39.4)
Decrease/(increase) in debtors	**67.6**	(60.3)
(Decrease)/increase in creditors	**(72.4)**	168.3
Decrease in net pension liabilities	**(5.9)**	(4.4)
Net cash inflow from operating activities	**310.1**	322.3

(b) Returns on investments and servicing of finance

Interest received	**8.1**	9.5
Interest paid	**(52.1)**	(59.4)
Dividends paid to minority shareholders	**(0.1)**	(0.4)
Interest element of finance lease payments	**(0.6)**	(0.4)
Net cash outflow from returns on investments and servicing of finance	**(44.7)**	(50.7)

(27) CASH FLOW STATEMENT (CONTINUED)

(c) Capital expenditure and financial investment

	2004 £million	2003 £million
Purchase of fixed assets	**(66.6)**	(47.9)
Disposal of fixed assets	**7.7**	9.9
Loans to associated undertakings	**—**	(22.2)
Loans repaid by associated undertakings	**4.3**	14.9
Other investments (net)	**10.8**	2.5
Net cash outflow from capital expenditure and financial investment	**(43.8)**	(42.8)

(d) Acquisitions and disposals

	2004 £million	2003 £million
Purchase of businesses	**(88.7)**	(59.2)
Net cash/(overdrafts) of businesses acquired	**2.0**	(0.1)
Purchase of shares in associated undertakings	**(54.0)**	(1.2)
Disposal of businesses	**31.0**	—
Net overdrafts of businesses sold	**0.8**	0.3
Disposal of investment in associated undertakings	**1.9**	13.4
Net cash outflow from acquisitions and disposals	**(107.0)**	(46.8)

(28) NET CASH INFLOW/(OUTFLOW) FROM INCREASE/(DECREASE) IN DEBT AND LEASE FINANCING

	2004 £million	2003 £million
Debt due within one year:		
Net movement in money market borrowings maturing within one week	**(17.9)**	(35.4)
Decrease in short-term borrowings	**(9.9)**	(65.1)
Borrowings due after one year:		
Increase in borrowings	**40.7**	32.4
Repayment of borrowings	**(8.7)**	(10.5)
Capital element of finance lease rental payments	**(1.5)**	(1.7)
Net cash inflow/(outflow) from increase/(decrease) in debt and lease financing	**2.7**	(80.3)

(29) ANALYSIS OF MOVEMENT IN NET BORROWINGS

	Cash at bank and in hand £million	Borrowings due within one year £million	Borrowings due after more than one year £million	Net borrowings £million
At 1 January 2004	117.2	(257.5)	(686.9)	**(827.2)**
Increase in cash	(15.4)	58.2	—	**42.8**
Decrease/(increase) in debt	—	29.3	(32.0)	**(2.7)**
Finance leases entered into	—	(3.0)	(10.3)	**(13.3)**
Other non-cash movement	—	(0.7)	—	**(0.7)**
Currency translation differences	(0.9)	(2.1)	(6.9)	**(9.9)**
At 31 December 2004	**100.9**	**(175.8)**	**(736.1)**	**(811.0)**

(30) MAJOR NON-CASH TRANSACTIONS

Part of the purchase consideration for the acquisition of retail pharmacy businesses comprised loan notes. Further details are set out in note 26.

Part of the purchase consideration for the increased stake in Hedef Alliance was satisfied during the year through the issue of 2.2 million ordinary shares of Alliance UniChem Plc.

(31) OTHER FINANCIAL COMMITMENTS

At 31 December 2004 the Group had the following commitments payable within one year under operating leases expiring:

	2004		2003	
	Land and buildings £million	**Other £million**	Land and buildings £million	Other £million
Within one year	**1.9**	**0.8**	1.9	1.6
Between one and two years	**1.4**	**2.8**	1.4	3.1
Between two and five years	**4.6**	**4.7**	5.0	2.5
Over five years	**15.5**	**0.3**	13.8	—
	23.4	**8.6**	22.1	7.2

(32) PRINCIPAL SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings all of which were indirectly held were:

Company	Interest in ordinary share capital	Country of operation	Country of incorporation	Main activity
Wholesale Northern Europe				
UniChem Limited	100%	UK	UK	pharmaceutical wholesaler
Interpharm B.V.	100%	The Netherlands	The Netherlands	pharmaceutical wholesaler
Alliance UniChem CZ Spo	97.1%	Czech Republic	Czech Republic	pharmaceutical wholesaler
Holtung A.S.	100%	Norway	Norway	pharmaceutical wholesaler
Wholesale Southern Europe				
Alliance Santé S.A.	99.8%	France	France	pharmaceutical wholesaler
Alleanza Salute Italia SpA	100%	Italy	Italy	pharmaceutical wholesaler and holding company
Safa Galenica S.A.	99.2%	Spain	Spain	pharmaceutical wholesaler
Alliance UniChem Farmacẽutica S.A.	100%	Portugal	Portugal	pharmaceutical wholesaler
Retail				
E. Moss Limited	100%	UK	UK	retail pharmacy operator
Alliance UniChem Norge A.S.	100%	Norway	Norway	retail pharmacy operator
De Vier Vijzels B.V.	100%	The Netherlands	The Netherlands	retail pharmacy operator

As permitted by Section 231(5) of the Companies Act 1985, only principal undertakings are shown. A complete list of all subsidiary undertakings is filed with the Company's annual return.

(33) PRINCIPAL ASSOCIATED UNDERTAKINGS

The principal associated undertakings were:

Company	Interest in ordinary share capital and voting rights	Country of operation	Country of incorporation	Main activity
Hedef Alliance Holding A.S.[(1)]	50%	Turkey	Turkey	pharmaceutical wholesaler
Galenica A.G.[(2)]	25.5%	Switzerland	Switzerland	pharmaceutical wholesaler
Alloga S.A.[(3)]	20%	Europe	Luxembourg	holding company for a number of prewholesalers
GaleniCare S.A.[(3)]	50%	Switzerland	Switzerland	retail pharmacy operator
Andreae-Noris Zahn AG	29.99%	Germany	Germany	pharmaceutical wholesaler
Unifarma Distribuzione S.r.l.	36%	Italy	Italy	pharmaceutical wholesaler
Pharmapartners B.V.	40%	The Netherlands	The Netherlands	pharmaceutical software

(1) The interest in ordinary share capital and voting rights held directly by Alliance UniChem Plc is 25%.
(2) All shares have the same voting rights, but no shareholder may exercise more than 20% of the votes.
(3) The remaining shares are owned by Galenica A.G. which is itself an associated undertaking.

(34) RELATED PARTY TRANSACTIONS

The Group has entered into a contract with Hedef Alliance to develop and supply warehouse management and financial software.

Trading transactions with associated undertakings were:

	2004		2003	
	Turnover in year £million	**Balance at year end £million**	Turnover in year £million	Balance at year end £million
Hedef Alliance Holding A.S.	**—**	**—**	0.3	—
Alloga S.A. and subsidiaries	**2.0**	**0.1**	2.1	0.3
Unifarma Distribuzione S.r.l.	**—**	**—**	0.2	—
Pharmacy Initiative 1 Plc	**1.9**	**0.2**	1.4	0.1
Pharmacy Initiative 2 Plc	**1.4**	**0.2**	1.2	0.1
Pharmacy Initiative 3 Plc	**0.6**	**0.1**	0.1	0.1

	2004		2003	
	Purchases in year £million	**Balance at year end £million**	Purchases in year £million	Balance at year end £million
Alloga S.A. and subsidiaries	**97.1**	**0.5**	92.3	3.9
Unifarma Distribuzione S.r.l.	—	—	0.6	0.2

(35) CONTINGENT LIABILITIES

The Group offers its UK wholesale customers access to long-term financing for their pharmacy businesses through financing arrangements developed by the Group with its banks. The Company supports these arrangements through the provision of guarantees, which at 31 December 2004 amounted to £18.6 million (2003 £37.0 million). Guarantees are also provided by another Group company that totalled £30.7 million at 31 December 2004 (2003 £31.8 million). Total loans outstanding through these financing arrangements at 31 December 2004 were £205.8 million (2003 £198.9 million).

In the last five years the Group has not suffered any loss in relation to these schemes.

(36) POST BALANCE SHEET EVENTS

On 2 February 2005 the Group announced that it is to restructure its relationship with Galenica A.G., in which it has a 25.5% interest in the ordinary share capital. Under the terms of the restructuring the Group will increase its direct ownership in Alloga S.A., one of Europe's leading specialist healthcare logistics and prewholesaling providers, from 20% to 100%, with the exception of the Swiss part of the business which will be fully acquired by Galenica A.G.. In addition, the Group will sell its 50% direct interest in the ordinary share capital of GaleniCare S.A., the Swiss retail pharmacy chain operator, to Galenica A.G.. The net cash inflow from these transactions will be around £20 million (€29 million). As part of this restructuring, the Group will extend its associate agreement with Galenica S.A. for a further five years to 2014. This transaction, which is conditional upon receiving various regulatory approvals, is expected to be completed by the end of April.

On 21 February 2005 the Group announced that it is to expand its Spanish wholesaling business through the acquisition of Farmacen, a regional wholesaler with strong market positions in the Madrid and Seville regions, its sales totalling around £184 million (€272 million). It is being acquired at a cost of around £33 million (€48 million), including debt assumed as part of the acquisition, of which around half is payable in instalments over the next four years. The transaction, which is conditional upon receiving various regulatory approvals, is expected to be completed by the end of April.

Deloitte.

Independent auditors' report
to the members of Alliance UniChem Plc

Introduction

We have audited the financial statements of Alliance UniChem Plc for the year ended 31 December 2003 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, the Group statement of total recognised gains and losses, the reconciliation of movements in Group shareholders' funds, the note on historical cost profits and losses, and the related notes numbered 1 to 36 to the financial statements. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Board report on remuneration that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for the Annual Report, including the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards, are set out in the Directors' responsibilities statement. The Directors are also responsible for the preparation of other information contained in the Annual Report including the Board report on remuneration. Our responsibility is to audit the financial statements and the part of the Board report on remuneration described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Board report on remuneration described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the Board report on corporate governance reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Report of the Directors and other information contained in the Annual Report as described in the contents section, including the unaudited part of the Board report on remuneration and the unaudited proforma information shown on the primary financial statements, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Board report on remuneration described as being audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Board report on remuneration described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements, and the part of the Board report on remuneration described as having been audited.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit of the Group for the year then ended and together with the part of the Board report on remuneration described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors, London
24 February 2004

Group profit and loss account
for the year ended 31 December 2003

Unaudited proforma 2003 €million		Note	**2003 £million**	2002 restated £million
12,697.4	**Turnover** — continuing operations	3,4	**8,799.3**	7,771.6
314.1	**Group operating profit** — continuing operations	3	**217.7**	197.0
46.4	Share of operating profit in associated undertakings		**32.1**	17.8
360.5	**Total operating profit**	4	**249.8**	214.8
(77.2)	Net interest payable and similar charges	6	**(53.5)**	(46.9)
302.9	Profit on ordinary activities before taxation and amortisation of intangible assets		**209.9**	180.5
283.3	**Profit on ordinary activities before taxation**	7	**196.3**	167.9
(97.0)	Tax on profit on ordinary activities	8	**(67.2)**	(58.0)
186.3	Profit on ordinary activities after taxation		**129.1**	109.9
(0.9)	Equity minority interests		**(0.6)**	(0.4)
185.4	**Profit for the financial year**		**128.5**	109.5
(82.4)	Dividends	9	**(57.1)**	(52.6)
103.0	Retained profit for the financial year		**71.4**	56.9
	Earnings per share	10		
	Basic		**37.6p**	33.3p
	Diluted		**37.3p**	33.1p
	Basic, before amortisation of intangible assets		**41.6p**	37.1p
	Diluted, before amortisation of intangible assets		**41.2p**	36.9p

Balance sheets
as at 31 December 2003

Unaudited proforma 2003 €million		Note	Group 2003 £million	Group 2002 restated £million	Company 2003 £million	Company 2002 restated £million
	Fixed assets					
1,113.5	Intangible assets	11	**784.7**	723.1	**—**	—
432.7	Tangible assets	12	**304.9**	284.4	**0.5**	1.3
493.7	Investments	13	**347.9**	306.0	**1,394.8**	1,505.2
2,039.9			**1,437.5**	1,313.5	**1,395.3**	1,506.5
	Current assets					
1,034.2	Stocks	14	**728.8**	649.9	**—**	—
636.8	Securitised receivables		**448.8**	422.4	**—**	—
(566.9)	Non-recourse receipts		**(399.5)**	(377.1)	**—**	—
69.9	Net securitised receivables	15	**49.3**	45.3	**—**	—
1,601.5	Other debtors	16	**1,128.6**	1,017.2	**10.5**	16.6
166.3	Cash at bank and in hand	17	**117.2**	149.7	**28.9**	11.8
2,871.9			**2,023.9**	1,862.1	**39.4**	28.4
	Creditors: amounts falling due within one year					
(365.4)	Borrowings	17	**(257.5)**	(361.7)	**(45.8)**	(112.5)
(2,162.3)	Other creditors	19	**(1,523.8)**	(1,278.8)	**(182.2)**	(182.9)
(2,527.7)			**(1,781.3)**	(1,640.5)	**(228.0)**	(295.4)
344.2	**Net current assets/(liabilities)**		**242.6**	221.6	**(188.6)**	(267.0)
2,384.1	**Total assets less current liabilities**		**1,680.1**	1,535.1	**1,206.7**	1,239.5
	Creditors: amounts falling due after more than one year					
(974.7)	Borrowings	17	**(686.9)**	(668.2)	**(563.7)**	(632.3)
(26.4)	Provisions for liabilities and charges	20	**(18.6)**	(11.7)	**—**	—
1,383.0	**Net assets excluding net pension (liabilities)/assets**		**974.6**	855.2	**643.0**	607.2
(48.7)	Net pension (liabilities)/assets	21	**(34.3)**	(23.8)	**—**	1.7
1,334.3	**Net assets including net pension (liabilities)/assets**		**940.3**	831.4	**643.0**	608.9
	Capital and reserves					
49.8	Called up share capital	22	**35.1**	34.5	**35.1**	34.5
630.4	Share premium account	24	**444.2**	419.8	**444.2**	419.8
35.6	Shares to be issued	23	**25.1**	17.7	**25.1**	17.7
(32.8)	Investment in own shares	25	**(23.1)**	(26.1)	**(23.1)**	(26.1)
3.7	Capital reserve	24	**2.6**	2.2	**—**	—
632.7	Profit and loss account	24	**445.9**	372.9	**161.7**	163.0
1,319.4	**Equity shareholders' funds**		**929.8**	821.0	**643.0**	608.9
14.9	Minority interests		**10.5**	10.4	**—**	—
1,334.3			**940.3**	831.4	**643.0**	608.9

The financial statements were approved by the Board on 24 February 2004 and are signed on its behalf by:

S Pessina
G R Fairweather Directors

Group cash flow statement

for the year ended 31 December 2003

Unaudited proforma 2003 €million		Note	**2003 £million**	2002 £million
465.1	**Net cash inflow from operating activities**	27a	**322.3**	200.6
4.8	Dividends received from associated undertakings		**3.3**	2.7
(73.2)	Returns on investments and servicing of finance	27b	**(50.7)**	(48.6)
(66.7)	Taxation		**(46.2)**	(51.9)
(61.8)	Capital expenditure and financial investment	27c	**(42.8)**	(62.0)
(67.5)	Acquisitions and disposals	27d	**(46.8)**	(113.5)
(44.4)	Equity dividends paid		**(30.8)**	(40.1)
156.3	**Cash inflow/(outflow) before financing**		**108.3**	(112.8)
	Financing			
2.9	Issue of ordinary share capital		**2.0**	89.7
(115.9)	Net cash (outflow)/inflow from (decrease)/increase in debt and lease financing	28	**(80.3)**	93.3
(113.0)	Net cash (outflow)/inflow from financing		**(78.3)**	183.0
43.3	**Increase in cash in the year**		**30.0**	70.2
	Reconciliation of net cash flow to movement in net borrowings			
	Increase in cash in the year		**30.0**	70.2
	Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	28	**80.3**	(93.3)
	Decrease/(increase) in net borrowings resulting from cash flows		**110.3**	(23.1)
	Borrowings acquired with businesses		**(0.3)**	(2.6)
	Loan notes issued for non-cash consideration	26	**(0.4)**	(13.5)
	Currency translation differences		**(56.6)**	(59.6)
	Decrease/(increase) in net borrowings for the year		**53.0**	(98.8)
	Net borrowings at 1 January		**(880.2)**	(781.4)
	Net borrowings at 31 December	29	**(827.2)**	(880.2)

Group statement of total recognised gains and losses
for the year ended 31 December 2003

	Note	2003 £million	2002 restated £million
Profit for the financial year		**128.5**	109.5
Actuarial loss on defined benefit pension schemes	21	**(17.1)**	(19.9)
Deferred tax associated with defined benefit pension schemes		**5.0**	5.9
Currency translation differences on foreign currency net investments		**13.8**	7.8
Tax on currency translation differences on foreign currency borrowings		**0.4**	4.5
Total recognised gains and losses relating to the year		**130.6**	107.8
Prior year adjustment for FRS 17	1,21	**(19.6)**	
Total recognised gains and losses since last Annual Report		**111.0**	

Reconciliation of movements in Group shareholders' funds
for the year ended 31 December 2003

	Note	2003 £million	2002 restated £million
At 1 January, as previously stated		**866.7**	680.8
Prior year adjustment for FRS 17	1,21	**(19.6)**	(6.3)
Reclassification of investment in own shares	1,25	**(26.1)**	(13.9)
At 1 January, as restated		**821.0**	660.6
Total recognised gains and losses for the financial year		**130.6**	107.8
Dividends	9	**(57.1)**	(52.6)
Shares issued	22	**25.0**	102.0
Shares to be issued	23	**7.4**	17.7
Consideration received on sale of own shares	25	**2.9**	(12.2)
Other		**—**	(2.3)
At 31 December		**929.8**	821.0

Note of historical cost profits and losses
for the year ended 31 December 2003

There were no material differences between the reported profit on ordinary activities before taxation and the retained profit and their historical cost equivalents for the year. Similarly there were no such differences in 2002.

Notes to the financial statements
for the year ended 31 December 2003

(1) ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with generally accepted accounting principles and applicable accounting standards. The principal accounting policies adopted within that convention are set out below. These are unchanged from the previous year with the exception of:

(a) the adoption in full of Financial Reporting Standard 17 "Retirement Benefits", the effects of which are explained in note 21. A prior year adjustment of £19.6 million is the cumulative prior year effect of this change of accounting policy and has been charged against reserves;

(b) in accordance with the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 and UITF Abstract 38 "Accounting for ESOP Trusts", both issued in the year, the Group's investment in its own shares via its Employee Share Ownership Plan Trust has been reclassified from fixed asset investments to shareholders' funds; and

(c) changes to the Group's policy on the classification of items included within turnover following an amendment to FRS 5 "Reflecting the Substance of Transactions" in December 2003. Accordingly 2002 turnover, cost of sales and other operating income have been restated with no impact on total operating profit.

An unaudited memorandum disclosure has been made on the face of the primary financial statements to show the Euro equivalents, using the average exchange rate for the Group profit and loss account and Group cash flow statement, and the closing exchange rate for the Group balance sheet as disclosed in note 2. In addition, profit on ordinary activities before taxation and amortisation of intangible assets has been disclosed on the face of the Group profit and loss account to assist understanding.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company, its subsidiary undertakings and the Group's shares of the results and net assets of associated undertakings and joint ventures. The results of undertakings acquired or disposed of during the year are dealt with in the Group financial statements for the period that the Group has control. All material undertakings within the Group make up their accounts to 31 December.

Acquisitions

Businesses acquired are accounted for using the acquisition method. On the acquisition of a business, or an interest in an associate, fair values reflecting conditions at the date of acquisition are attributed to the net assets including retail pharmacy licences acquired. Adjustments are also made to bring accounting policies into line with those of the Group. Where statutory merger relief is applicable, the difference between the fair value of the business acquired and the nominal value of shares issued as purchase consideration is treated as a merger reserve.

Foreign exchange

The profit and loss accounts and cash flows of undertakings with a reporting currency other than sterling are translated into sterling at average rates of exchange, other than substantial exceptional items that are translated at the rate on the date of the transaction. The adjustment to closing rates is taken to the statement of total recognised gains and losses.

Balance sheets are translated at closing rates. Exchange differences arising on the re-translation at closing rates of the opening balance sheets of undertakings with a reporting currency other than Sterling are taken to the statement of total recognised gains and losses, less exchange differences arising on related currency borrowings and financial instruments. Tax charges and credits arising on such items are also taken to reserves. Other currency translation differences are taken to the profit and loss account.

(1) ACCOUNTING POLICIES (CONTINUED)

Foreign exchange (continued)

The results, assets and liabilities of undertakings in hyper-inflationary economies are determined using an appropriate relatively stable currency as the functional currency. The currency translation differences arising from this process are taken to the profit and loss account.

Transactions in currencies other than the reporting currency of the undertaking are recorded at the rate of exchange at the date of the transaction or, if hedged forward, at the rate of exchange under the related foreign currency contract.

Turnover

Turnover is the amount derived from the sale of goods and services in the normal course of business outside the Group, net of trade discounts, value added tax and other sales-related taxes. Turnover is recognised at the point at which title passes.

Retail pharmacy licences

Retail pharmacy licences, being the exclusive right to be reimbursed for the dispensing of prescription medicines from a specified location, are capitalised, where there is an asset that can be separated from the other identifiable assets that together form a retail pharmacy business. Where they have a finite economic life they are amortised over that economic life. Where they do not have a finite economic life they are not amortised and are subjected to an annual impairment test. The cost of retail pharmacy licences less any impairment in value and any amortisation are included in intangible fixed assets.

Goodwill

The excess of the purchase price over the fair value of net assets (including retail pharmacy licences) of businesses acquired in the year is capitalised and amortised over its useful economic life, up to a maximum of 20 years. Goodwill acquired prior to 1998 was written off against reserves, and will be charged through the profit and loss account in the event of subsequent disposal.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write down the cost of these assets to their estimated residual values on a straight-line basis over the period of their estimated useful economic lives:

Freehold buildings	-	50 years
Long and short leasehold properties	-	the shorter of the period of the lease and 50 years
Furniture, fixtures and equipment	-	between 3 and 10 years
Motor vehicles	-	between 3 and 10 years

Freehold land is not depreciated.

Leased assets

Assets held under finance leases are capitalised and depreciated over the estimated useful life of the asset. The capital element of future lease obligations are recorded as liabilities, while the finance charges are allocated over the primary period of the lease in proportion to the capital element of the lease outstanding. Costs of operating leases are charged to the profit and loss account as they accrue.

Investments

Investments are stated at cost less provisions for impairment and, for the Company's investments prior to 1998, less an amount equal to the goodwill written off to reserves.

(1) ACCOUNTING POLICIES (CONTINUED)

Stocks

Stocks consist of goods held for resale and are valued at the lower of cost and net realisable value.

Derivatives and other financial instruments

The Group uses derivative financial instruments to hedge its exposures to fluctuations in interest and foreign exchange rates. Instruments accounted for as hedges are structured so as to reduce the market risk associated with the underlying transaction being hedged and are designated as a hedge at the inception of the contract. If the underlying transaction to a hedge ceases to exist, the hedge is typically cancelled and the profit or loss recognised immediately.

Receipts and payments on interest rate instruments are recognised on an accruals basis over the life of the instrument. Foreign exchange contracts hedging balance sheet assets and liabilities are revalued at closing rates and exchange differences arising are taken to the statement of total recognised gains and losses. Gains and losses on contracts hedging forecast transactional cash flows, and on option instruments hedging the sterling value of foreign currency denominated income, are recognised in the hedged periods.

Cash flows associated with derivative financial instruments are classified in the cash flow statement in a manner consistent with those of the transactions being hedged. Finance costs associated with debt issuances are charged to the profit and loss account over the life of the issue.

Securitised receivables

Where the Group has sold trade receivables and received an initial cash payment on a non-recourse basis in return, the gross amount of the trade receivables sold is disclosed on the face of the balance sheet as securitised receivables and the amounts received as non-recourse receipts. The Group retains an interest in the receivables represented by the net of these two amounts.

Charges payable in respect of receivables so securitised that are fixed are included within administration expenses. Costs that vary according to a principal amount, an interest rate and a time period are treated as net interest payable and similar charges.

Pensions

The Group accounts for pension schemes in accordance with FRS 17 "Retirement Benefits". For defined contribution schemes, contributions are charged to the profit and loss account as payable in respect of the accounting period. For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period the vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Where defined benefit schemes are funded, the assets of the scheme are held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated on the balance sheet date. The resulting defined benefit asset or liability, net of the related deferred taxation, is presented separately after other net assets on the face of the balance sheet.

(1) ACCOUNTING POLICIES (CONTINUED)

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law, at the balance sheet date. Deferred tax is not provided on timing differences arising from either the revaluation of fixed assets or rolled over gains where there is no commitment to sell the asset. Deferred tax is only provided on unremitted earnings of subsidiaries and associates where there is a commitment to remit the earnings. Deferred tax assets are recognised to the extent that they are regarded as more likely than not to be recovered. Deferred tax assets and liabilities are not discounted.

Employee Share Ownership Plans (ESOPs)

Assets and liabilities held by ESOPs are included in the balance sheet where the Group has de facto control of the shares held by the ESOP Trust. Where the shares are conditionally gifted or under option to employees at below book value the difference is charged as an administration cost over the period to which the employee's performance relates.

(2) EXCHANGE RATES

The following exchange rates have been used in the preparation of the financial statements.

	Euro €/£	Czech Koruna CZK/£	Norwegian Kroner NOK/£	Swiss Franc CHF/£	US Dollar $/£
As at 31 December 2003	1.419	45.970	11.910	2.214	1.790
As at 31 December 2002	1.534	48.420	11.150	2.226	1.610
Average for 2003	1.443	46.009	11.592	2.198	1.645
Average for 2002	1.593	49.060	11.990	2.335	1.505

(3) GROUP OPERATING PROFIT

	2003 £million	2002 restated £million
Turnover	**8,799.3**	7,771.6
Cost of sales	**(7,965.2)**	(7,039.3)
Gross profit	**834.1**	732.3
Administrative expenses	**(618.4)**	(536.8)
	215.7	195.5
Other operating income	**2.0**	1.5
Group operating profit	**217.7**	197.0

Distribution costs are considered to be a component of cost of sales, due to the nature of the Group's business, and as such are not separately disclosed.

Other operating income principally includes dividend income from other fixed asset investments.

All transactions are derived from continuing operations.

(4) SEGMENTAL ANALYSIS

	Turnover 2003 £million	Total operating profit before amortisation of intangible assets 2003 £million	Total operating profit after amortisation of intangible assets 2003 £million	Turnover 2002 restated £million	Total operating profit before amortisation of intangible assets 2002 restated £million	Total operating profit after amortisation of intangible assets 2002 restated £million
Wholesale Northern Europe	**2,899.8**	**84.3**	**79.3**	2,572.0	77.4	71.5
Wholesale Southern Europe	**5,618.9**	**74.4**	**70.9**	4,881.1	74.4	71.8
Retail — Europe	**1,107.4**	**79.3**	**78.9**	974.0	65.8	65.4
Corporate	**—**	**(11.4)**	**(11.4)**	—	(11.7)	(11.7)
Intra-Group	**(826.8)**	**—**	**—**	(655.5)	—	—
Group	**8,799.3**	**226.6**	**217.7**	7,771.6	205.9	197.0
Share of operating profit in associated undertakings	**—**	**36.8**	**32.1**	—	21.5	17.8
Total	**8,799.3**	**263.4**	**249.8**	7,771.6	227.4	214.8

The analysis of turnover by destination is not materially different from the analysis of turnover by origin.

	2003 £million	2002 restated £million
Analysis of net assets		
Wholesale Northern Europe	**327.0**	340.2
Wholesale Southern Europe	**559.4**	510.6
Retail — Europe	**654.9**	642.7
Corporate	**11.0**	26.2
Net operating assets	**1,552.3**	1,519.7
Associated undertakings	**287.6**	250.5
Proposed dividends	**(38.1)**	(34.8)
Net borrowings	**(827.2)**	(880.2)
Net pension liabilities	**(34.3)**	(23.8)
	940.3	831.4

(5) STAFF COSTS

The average number of persons employed by the Group, including Directors and part-time staff, was:

	2003	2002
Wholesale Northern Europe	**5,039**	4,965
Wholesale Southern Europe	**7,274**	7,169
Retail — Europe	**9,785**	9,103
Corporate	**62**	55
	22,160	21,292

Costs incurred in respect of these employees were:

	2003 £million	2002 restated £million
Wages and salaries	**333.0**	296.0
Social security costs	**64.7**	54.7
Other pension costs (see Note 21)		
— amounts within operating profit	**13.0**	11.5
— amounts included as other finance costs	**1.0**	—
— amounts recognised in statement of total recognised gains and losses	**17.1**	19.9
	428.8	382.1

Directors' emoluments for the financial year ended 31 December 2003 are provided in the Board report on remuneration.

(6) NET INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £million	2002 restated £million
Interest payable		
Bank loans and overdrafts	**34.0**	32.9
Loan notes	**21.5**	20.9
Other loans	**0.9**	0.8
Finance charges payable on securitised receivables	**2.9**	2.2
Finance charges payable on finance leases	**0.4**	0.5
Associate interest payable	**3.1**	5.3
	62.8	62.6
Interest receivable		
Bank deposit interest receivable	**(1.2)**	(0.5)
Other finance income	**(8.3)**	(8.9)
Associate interest receivable	**(1.7)**	(6.5)
	(11.2)	(15.9)
Other finance costs		
Net return on defined benefit pension schemes (see Note 21)	**1.0**	—
Discount on deferred acquisition consideration	**0.9**	0.2
	1.9	0.2
	53.5	46.9

(7) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation has been arrived at after charging:

	2003 £million	2002 £million
Depreciation of owned assets	**40.5**	36.0
Depreciation of assets held under finance leases	**0.7**	1.1
Total depreciation of tangible fixed assets	**41.2**	37.1
Goodwill amortisation — subsidiary undertakings	**8.6**	8.5
— associated undertakings	**4.7**	3.7
Amortisation of retail pharmacy licences	**0.3**	0.4
Total amortisation of intangible assets	**13.6**	12.6

	2003 £million	2002 £million
Administration costs of securitised receivables	**5.1**	6.2
Profit on disposal of fixed assets	**(9.7)**	(8.0)
Operating lease rentals — land and buildings	**21.3**	18.7
— furniture, fixtures and equipment	**6.8**	4.2
— motor vehicles	**1.3**	1.5
Audit fees — principal auditors	**0.9**	0.7
— other auditors	**0.4**	0.4

Audit fees include £0.1 million (2002 £0.1 million) for the audit of the Company by the principal auditors. In addition to audit fees, other fees paid to the auditors, including fees capitalised, were as follows:

	Principal auditors £million	Other auditors £million	2003 £million	2002 £million
Due diligence reviews	0.1	0.1	**0.2**	0.3
Taxation services	0.9	0.1	**1.0**	0.4
Other	0.1	—	**0.1**	0.2
	1.1	0.2	**1.3**	0.9

(8) TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003 £million	2002 restated £million
UK corporation tax		
Current tax on income for the year at 30% (2002 30%)	**55.3**	26.5
Adjustment in respect of prior years	**—**	(0.9)
	55.3	25.6
Double taxation relief	**(35.7)**	(5.8)
	19.6	19.8
Overseas tax		
Current tax on income for the year	**30.1**	27.6
Adjustment in respect of prior years	**1.3**	0.6
	31.4	28.2
Associated undertakings — current tax	**8.4**	7.9
Current tax charge	**59.4**	55.9
Deferred tax		
UK	**0.2**	(1.1)
Overseas	**5.8**	4.0
Adjustment in respect of prior years	**0.8**	(1.1)
	6.8	1.8
Deferred tax on defined benefit pension schemes	**1.0**	0.3
Deferred tax charge	**7.8**	2.1
	67.2	58.0

All charges for deferred tax in the current and prior years have arisen due to the origination and reversal of timing differences.

Alliance UniChem's principal operations are in Europe and the appropriate standard rate of tax is the average of the standard tax rates in the countries of operation, weighted by the amount of profit on ordinary activities before taxation and amortisation of intangible assets. The reconciliation of expected tax charge using this standard tax rate of 31.8% (2002 32.5%) to the actual current tax charge is as follows:

	2003 £million	2002 restated £million
Profit on ordinary activities before taxation	**196.3**	167.9
Amortisation of intangible assets	**13.6**	12.6
Profit on ordinary activities before taxation and amortisation	**209.9**	180.5
Expected tax charge at standard tax rate	**66.7**	58.7
Permanent timing differences	**1.2**	1.0
Roll-over relief on capital gains	**—**	(1.0)
Exempt capital gains	**(1.9)**	(0.2)
Timing differences in deferred tax	**(7.0)**	(3.3)
Tax losses brought forward and utilised in year	**(1.2)**	(0.1)
Unrelieved tax losses arising in year	**0.3**	1.1
Adjustment in respect of prior years	**1.3**	(0.3)
Current tax charge	**59.4**	55.9

(9) DIVIDENDS

	2003 £million	2002 £million
Interim paid, net 5.7 pence (2002 5.2 pence)	**19.0**	17.8
Final proposed, net 11.0 pence (2002 10.1 pence)	**38.1**	34.8
	57.1	52.6

Dividends in respect of shares held by the ESOP Trust have been waived.

(10) EARNINGS PER SHARE

	2003			2002		
	Profit for the financial year £million	**Weighted average number of shares million**	**Earnings per share pence**	Profit for the financial year restated £million	Weighted average number of shares million	Earnings per share restated pence
Basic	**128.5**	**341.4**	**37.6**	109.5	328.9	33.3
Share options	**—**	**1.0**	**(0.1)**	—	1.9	(0.2)
Deferred acquisition consideration	**0.9**	**4.9**	**(0.2)**	0.2	0.9	—
Diluted	**129.4**	**347.3**	**37.3**	109.7	331.7	33.1
Basic	**128.5**	**341.4**	**37.6**	109.5	328.9	33.3
Amortisation of intangible assets	**13.6**	**—**	**4.0**	12.6	—	3.8
Basic, before amortisation of intangible assets	**142.1**	**341.4**	**41.6**	122.1	328.9	37.1
Share options	**—**	**1.0**	**(0.1)**	—	1.9	(0.2)
Deferred acquisition consideration	**0.9**	**4.9**	**(0.3)**	0.2	0.9	—
Diluted, before amortisation of intangible assets	**143.0**	**347.3**	**41.2**	122.3	331.7	36.9

Earnings per share are also calculated before amortisation of intangible assets and exceptional items, if any, since the Directors consider that this gives a useful additional indication of underlying performance.

The diluted earnings per share calculations are prepared on the assumption that shares that may be potentially issued to meet the deferred consideration for the acquisition of Hedef Alliance were issued when the investment was made. The discount on this deferred acquisition consideration is therefore adjusted when computing the relevant profit for the financial year.

(11) INTANGIBLE FIXED ASSETS

	Positive goodwill £million	Negative goodwill £million	Total goodwill £million	Retail pharmacy licences £million	Total £million
Cost					
At 1 January	185.1	(1.9)	183.2	562.7	**745.9**
Businesses acquired	6.9	—	6.9	48.4	**55.3**
Disposals	(0.2)	—	(0.2)	—	**(0.2)**
Currency translation differences	14.1	—	14.1	3.1	**17.2**
At 31 December	**205.9**	**(1.9)**	**204.0**	**614.2**	**818.2**
Amortisation					
At 1 January	21.6	(0.2)	21.4	1.4	**22.8**
Disposals	(0.1)	—	(0.1)	—	**(0.1)**
Charge/(credit) for the year	10.3	(1.7)	8.6	0.3	**8.9**
Currency translation differences	1.8	—	1.8	0.1	**1.9**
At 31 December	**33.6**	**(1.9)**	**31.7**	**1.8**	**33.5**
Net book value at 31 December 2003	**172.3**	**—**	**172.3**	**612.4**	**784.7**
Net book value at 31 December 2002	163.5	(1.7)	161.8	561.3	723.1

(12) TANGIBLE FIXED ASSETS

	Land and buildings					
Group	Freehold £million	Long leasehold £million	Short leasehold £million	Furniture, fixtures and equipment £million	Motor vehicles £million	Total £million
Cost						
At 1 January	166.3	21.6	5.0	286.6	24.5	**504.0**
Additions	4.3	0.9	0.7	42.8	5.1	**53.8**
Businesses acquired	0.7	—	0.1	1.6	—	**2.4**
Disposals	(4.2)	(0.1)	—	(8.4)	(7.8)	**(20.5)**
Currency translation differences	10.2	1.0	—	12.3	0.3	**23.8**
At 31 December	**177.3**	**23.4**	**5.8**	**334.9**	**22.1**	**563.5**
Depreciation						
At 1 January	32.5	4.0	2.2	167.4	13.5	**219.6**
Charge for the year	3.8	0.4	0.3	32.0	4.7	**41.2**
Businesses acquired	0.1	—	—	—	—	**0.1**
Disposals	(0.8)	(0.1)	—	(6.4)	(5.9)	**(13.2)**
Currency translation differences	2.2	0.1	—	8.3	0.3	**10.9**
At 31 December	**37.8**	**4.4**	**2.5**	**201.3**	**12.6**	**258.6**
Net book value at 31 December 2003	**139.5**	**19.0**	**3.3**	**133.6**	**9.5**	**304.9**
Net book value at 31 December 2002	133.8	17.6	2.8	119.2	11.0	284.4

(12) TANGIBLE FIXED ASSETS (CONTINUED)

Included within the Group cost of buildings and furniture, fixtures and equipment are assets in the course of construction of £19.4 million (2002 £5.5 million).

Company	Land and buildings Freehold £million	Long leasehold £million	Short leasehold £million	Furniture, fixtures and equipment £million	Motor vehicles £million	Total £million
Cost						
At 1 January	—	—	0.6	0.7	0.8	**2.1**
Disposals	—	—	—	(0.7)	(0.8)	**(1.5)**
At 31 December	**—**	**—**	**0.6**	**—**	**—**	**0.6**
Depreciation						
At 1 January	—	—	0.1	0.3	0.4	**0.8**
Disposals	—	—	—	(0.3)	(0.4)	**(0.7)**
At 31 December	**—**	**—**	**0.1**	**—**	**—**	**0.1**
Net book value at 31 December 2003	**—**	**—**	**0.5**	**—**	**—**	**0.5**
Net book value at 31 December 2002	—	—	0.5	0.4	0.4	1.3

The Group cost of long leaseholds includes capitalised interest of £0.5 million (2002 £0.5 million).

Included within the Group tangible fixed assets are assets held under finance leases with the following net book values:

Group	**2003 £million**	2002 £million
Land and buildings	**23.6**	21.7
Furniture, fixtures and equipment	**0.1**	0.1
	23.7	21.8

(13) FIXED ASSET INVESTMENTS

Group	**2003 £million**	2002 restated £million
Associated undertakings	**287.6**	250.5
Other investments	**60.3**	55.5
	347.9	306.0

Group Associated undertakings	Goodwill on associated undertakings £million	Share of net assets of associated undertakings £million	Loans to associated undertakings £million	Total £million
At 1 January	84.6	126.6	39.3	**250.5**
Profit for the year	—	27.0	—	**27.0**
Amortisation of goodwill	(4.7)	—	—	**(4.7)**
Dividends	—	(3.3)	—	**(3.3)**
Additions	2.3	5.5	22.2	**30.0**
Disposals	0.9	(7.2)	(14.9)	**(21.2)**
Transfer to subsidiary undertakings	—	(0.7)	—	**(0.7)**
Currency translation differences	0.7	9.2	0.1	**10.0**
At 31 December	**83.8**	**157.1**	**46.7**	**287.6**

In September 2002, the Group increased its stake in Hedef Alliance from 25% to 50%, paying £20.8 million in cash on completion. A further amount will be payable, dependent upon

(13) FIXED ASSET INVESTMENTS (CONTINUED)

performance, in cash or shares, or a combination thereof, at the Group's option, which the Directors anticipate will not exceed US$45.4 million (£25.4 million). The estimated deferred consideration has been discounted and accounted for as shares to be issued of £25.1 million in accordance with FRS 4 "Capital Instruments". Following improvements in the operating results of Hedef Alliance, the deferred consideration was increased by £6.5 million at 31 December 2003. The additional £2.3 million of goodwill on associated undertakings reflects this amount, offset by fair value adjustments on this acquisition.

Loans to associated undertakings are provided at normal commercial rates.

Group **Other investments**	Other listed investments £million	Other unlisted investments £million	Total £million
At 1 January, as restated	51.3	4.2	**55.5**
Additions	0.4	0.2	**0.6**
Businesses acquired	—	0.2	**0.2**
Impairment provision	—	(0.1)	**(0.1)**
Currency translation differences	4.1	—	**4.1**
At 31 December	**55.8**	**4.5**	**60.3**

Company	Shares in Group undertakings £million	Loans to Group undertakings £million	Shares in associated undertakings £million	Total £million
At 1 January, as restated	730.7	736.8	37.7	**1,505.2**
Additions	200.4	374.2	6.5	**581.1**
Disposals	(731.1)	—	—	**(731.1)**
Currency translation differences	—	39.6	—	**39.6**
At 31 December	**200.0**	**1,150.6**	**44.2**	**1,394.8**

The aggregate market value of the Group's other listed investments on 31 December 2003 was £57.6 million (2002 £52.1 million).

(14) STOCKS CONSIST

Stocks consist of goods held for resale. Their replacement cost does not differ significantly from the carrying value.

(15) SECURITISED RECEIVABLES

(a) French and Italian schemes

Receivables of £333.8 million (2002 £307.0 million) from French and Italian pharmacies have been securitised under five year programmes that mature in 2007. The Group is not obliged to support any losses in respect of the amounts advanced under the securitisation arrangements, being £299.5 million (2002 £277.1 million), nor does it intend to do so. The provider of these arrangements has agreed in writing that it will seek repayment of the finance as to both principal and interest only to the extent that sufficient funds are generated from the receivables discounted and that it will not seek recourse in any other form.

(b) UK scheme

In 2001, the Group entered into a five year agreement to sell UK receivables to Alliance No.1 PLC ("Alliance"). Alliance has issued £100 million secured notes to independent investors to finance the purchase of the receivables. The Group has provided finance totalling £15.0 million, which is subordinated, representing the excess of the face value of the receivables sold over the £100 million received. The secured notes are serviceable only from the cash flows generated from the securitised receivables together with £15.0 million of finance provided by the Group.

(15) SECURITISED RECEIVABLES (CONTINUED)

(b) UK scheme (continued)

Under the agreements with the note holders, the Group is not obliged to support any losses in respect of the securitised receivables other than to the extent of the subordinated loans and does not intend to do so.

The controlling interest in Alliance is held by a discretionary trust established for charitable purposes. The Group receives interest on the subordinated loans and is paid administrative fees by Alliance.

Alliance is a quasi-subsidiary of the Group and is not consolidated, as it meets the requirements of linked presentation under FRS 5 "Reporting the substance of transactions". The summary financial position of Alliance was:

	2003 £million	2002 £million
Profit and loss		
Interest receivable	**6.2**	6.4
Interest payable	**(6.2)**	(6.4)
Net interest receivable	**—**	—
Administrative expenses	**—**	—
Profit for the financial period	**—**	—
Balance sheet		
Current assets — investments	**115.1**	116.0
— cash at bank	**0.8**	4.1
Creditors due within one year	**(0.5)**	(0.8)
Creditors due in more than one year — debt securities	**(115.4)**	(119.3)
Net assets represented by equity shareholders' funds	**—**	—

At 31 December Group companies held £61.3 million (2002 £63.7 million) on behalf of Alliance, being amounts collected in respect of securitised receivables. These amounts were transferred to Alliance on 5 January 2004.

(16) OTHER DEBTORS

	Group		Company	
	2003 £million	2002 restated £million	**2003 £million**	2002 restated £million
Amounts falling due within one year				
Trade debtors	**905.3**	819.6	**—**	—
Amounts owed by associated undertakings	**0.4**	0.7	**—**	—
Loans to customers	**50.7**	39.1	**—**	—
Other debtors and accrued income	**97.2**	86.7	**3.9**	8.4
Other prepayments	**27.8**	26.4	**—**	1.2
Corporation tax recoverable	**3.2**	5.1	**—**	—
Deferred tax	**3.0**	3.3	**—**	1.2
Group relief receivable	**—**	—	**6.6**	5.8
	1,087.6	980.9	**10.5**	16.6
Amounts falling due after more than one year				
Trade debtors	**0.8**	1.8	**—**	—
Loans to customers	**38.9**	31.8	**—**	—
Other debtors	**1.3**	2.7	**—**	—
	41.0	36.3	**—**	—
Total	**1,128.6**	1,017.2	**10.5**	16.6

(17) NET BORROWINGS

	Group		Company	
	2003 £million	2002 £million	**2003 £million**	2002 £million
Amounts falling due within one year				
Bank overdrafts	**156.8**	245.9	**17.3**	56.0
Bank loans	**70.7**	95.8	**—**	46.6
Loan notes	**28.8**	18.9	**28.5**	9.9
Obligations under finance leases	**1.2**	1.1	**—**	—
	257.5	361.7	**45.8**	112.5
Amounts falling due after more than one year				
Bank loans	**140.2**	121.9	**24.3**	94.1
2008 Senior notes 6.63% (US$57 million)	**35.4**	32.8	**35.4**	32.8
2009 Senior notes 6.67% (US$113 million)	**70.3**	65.0	**70.3**	65.0
2011 Senior notes 6.55% (US$173 million)	**136.8**	126.5	**136.8**	126.5
2011 Senior notes 6.07% (€130 million)	**21.1**	19.6	**21.1**	19.6
2012 Senior notes 7.19% (US$300 million)	**223.9**	216.1	**223.9**	216.1
2017 Senior notes 7.01% (£50 million)	**51.9**	50.7	**51.9**	50.7
Loan notes	**—**	27.5	**—**	27.5
Obligations under finance leases	**7.3**	8.1	**—**	—
	686.9	668.2	**563.7**	632.3
Total borrowings	**944.4**	1,029.9	**609.5**	744.8
Cash at bank and in hand	**(117.2)**	(149.7)	**(28.9)**	(11.8)
Net borrowings	**827.2**	880.2	**580.6**	733.0

Interest on bank loans at the year end was at floating rates of between 0.61% and 9.40%, dependent upon the currency borrowed.

Loan notes totalling £3.9 million falling due within one year can be redeemed by the holders giving one month's notice before an interest payment date. However, if no notice is given, these notes will fall due at their maturity dates, which for the most part will be 2012. At the year end these loan notes bore interest at floating rates of between 2.36% and 3.37% per annum.

Loan notes totalling £24.6 million and falling due within one year are repayable on 16 June 2004. At the year end they bore interest at a fixed rate of 3.50% per annum. The remaining loan notes are redeemable on demand.

The proceeds from the issue of Senior notes have been converted through cross-currency swaps into Euros, Swiss francs, Sterling and Norwegian kroner. At the same time, the underlying fixed interest rates have been swapped into floating rates of the relevant currency for the duration of the Senior notes. At year end, the Senior notes effectively bore interest at floating rates of between 2.63% and 8.75% per annum dependent upon currency. The amount reported against each Senior note represents the translation of the swapped currencies at year end exchange rates.

Within cash at bank and in hand, amounts totalling £61.3 million (2002 £63.7 million) were temporarily held by Group companies on behalf of Alliance No.1 PLC in relation to the UK securitised receivables programme. These amounts were transferred to Alliance No.1 PLC on 5 January 2004. Excluding these amounts, cash at bank and in hand totalled £55.9 million (2002 £86.0 million).

(18) FINANCIAL INSTRUMENTS

The Group's approach to managing financial risk is described in the Financial review. Short term debtors and creditors have been excluded from this note other than the currency profile of monetary assets and liabilities.

(a) Book and fair value of financial instruments

A comparison of book values and fair values of the Group's financial assets and liabilities is set out below:

	2003		2002	
	Book value £million	**Fair value £million**	Book value £million	Fair value £million
Primary financial instruments held to finance the Group's operations:				
Cash at bank and in hand	**117.2**	**117.2**	149.7	149.7
Loans to associated undertakings	**46.7**	**46.7**	39.3	39.3
Other listed investments	**55.8**	**57.6**	51.3	52.1
Other unlisted investments	**4.5**	**4.5**	4.2	4.2
Debtors due after one year	**41.0**	**41.0**	36.3	36.3
Financial assets	**265.2**	**267.0**	280.8	281.6
Bank overdrafts	**(156.8)**	**(156.8)**	(245.9)	(245.9)
Bank loans	**(196.9)**	**(196.9)**	(212.2)	(212.2)
Loan notes	**(460.4)**	**(483.1)**	(515.4)	(557.7)
Obligations under finance leases	**(8.5)**	**(8.5)**	(9.2)	(9.2)
Total debt	**(822.6)**	**(845.3)**	(982.7)	(1,025.0)
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate derivatives	**—**	**(11.9)**	—	(14.1)
Cross currency derivatives	**(121.8)**	**(99.2)**	(47.2)	(5.1)
Financial liabilities	**(944.4)**	**(956.4)**	(1,029.9)	(1,044.2)

The fair values of fixed asset investments and interest rate and currency derivatives are based on market value. The fair value of all other financial instruments is approximately equal to book value due to either their short term nature or their being at variable interest rates.

(b) Interest rate profile

The interest rate profile of financial assets and liabilities, after taking into account interest rate and currency derivative contracts, was as follows:

	At floating interest rates £million	Non- interest bearing £million	Total £million
2003 Financial assets			
Sterling	**59.1**	**0.7**	**59.8**
Euro	**79.2**	**59.0**	**138.2**
Other	**64.5**	**2.7**	**67.2**
	202.8	**62.4**	**265.2**
2002 Financial assets			
Sterling	56.5	0.5	57.0
Euro	114.7	56.3	171.0
Other	49.6	3.2	52.8
	220.8	60.0	280.8

The Group has £nil of fixed rate financial assets at 31 December 2003 (2002 £nil).

(18) FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate profile (continued)

Floating rate financial assets mainly comprise bank deposits and loans to associated undertakings which bear interest based on London interbank reference rates.

	Fixed rate financial liabilities				
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	At fixed interest rates £million	At floating interest rates £million	Total £million
2003 Financial liabilities					
Sterling	**4.9**	**1.6**	**44.6**	**79.1**	**123.7**
Euro	**4.3**	**1.5**	**421.2**	**226.2**	**647.4**
Other	**6.4**	**2.6**	**12.0**	**161.3**	**173.3**
			477.8	**466.6**	**944.4**
2002 Financial liabilities					
Sterling	4.9	2.5	47.1	95.0	142.1
Euro	4.5	1.7	597.6	80.1	677.7
Other	5.9	1.7	32.8	177.3	210.1
			677.5	352.4	1,029.9

The Group has further Euro denominated derivative financial instruments to hedge securitisation costs that vary according to interest rates, totalling £112.5 million (2002 £131.8 million). These instruments have a weighted average interest rate of 4.3% which is fixed for a weighted average period of 1.5 years (2002 4.5% and 1.7 years).

Floating rate financial liabilities mainly comprise bank overdrafts, loans and loan notes predominantly bearing interest at margins over London interbank reference rates.

(c) Currency profile

There are no significant unmatched currency exposures on monetary assets and liabilities after taking into account the effects of currency swaps and forward exchange contracts.

(d) Maturity profile of financial liabilities

An analysis of financial liabilities, by due date of repayment, is as follows:

	Bank overdrafts £million	Bank loans £million	Loan notes £million	Obligations under finance leases £million	Total £million
2003					
Within one year	**156.8**	**70.7**	**28.8**	**1.2**	**257.5**
Between one and two years	**—**	**12.4**	**—**	**1.4**	**13.8**
Between two and five years	**—**	**123.4**	**35.4**	**4.0**	**162.8**
Over five years	**—**	**4.4**	**504.0**	**1.9**	**510.3**
	156.8	**210.9**	**568.2**	**8.5**	**944.4**
2002					
Within one year	245.9	95.8	18.9	1.1	361.7
Between one and two years	—	22.5	27.5	1.4	51.4
Between two and five years	—	90.4	—	4.0	94.4
Over five years	—	9.0	510.7	2.7	522.4
	245.9	217.7	557.1	9.2	1,029.9

(18) FINANCIAL INSTRUMENTS (CONTINUED)

(e) Undrawn committed borrowing facilities

The maturity profile of the Group's undrawn committed facilities, where all conditions precedent had been met, at 31 December was:

	2003 £million	2002 £million
Within one year	**0.8**	3.0
Between two and five years	**172.9**	102.3
Total	**173.7**	105.3

(f) Hedging

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on hedging instruments, and movements therein, were as follows:

Unrecognised gains and losses	Gains £million	Losses £million	Total £million
At 1 January 2003	47.7	(19.7)	**28.0**
Arising in previous years that were recognised in the year	(13.2)	13.3	**0.1**
Arising before 1 January that were not recognised in the year	34.5	(6.4)	**28.1**
Arising in the year that were not recognised in the year	(9.0)	(8.4)	**(17.4)**
At 31 December 2003	**25.5**	**(14.8)**	**10.7**
Of which expected to be recognised:			
In 2004	16.0	(6.8)	**9.2**
After 2004	9.5	(8.0)	**1.5**

(19) OTHER CREDITORS

	Group		Company	
	2003 £million	2002 £million	**2003 £million**	2002 £million
Amounts falling due within one year				
Trade creditors	**1,164.1**	967.6	**—**	—
Amounts owed to subsidiary undertakings	**—**	—	**132.6**	125.3
Capital creditors	**5.9**	—	**—**	—
Other creditors	**143.9**	119.4	**6.1**	10.3
Corporation tax	**23.6**	21.0	**—**	—
Other taxation and social security	**91.0**	86.5	**—**	3.6
Accruals and deferred income	**57.2**	49.5	**5.4**	8.9
Proposed dividend	**38.1**	34.8	**38.1**	34.8
	1,523.8	1,278.8	**182.2**	182.9

(20) PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax £million	Pensions £million	Total £million
Group			
At 1 January 2003, as previously stated	9.2	9.4	18.6
At 1 January 2003, in debtors, as previously stated	(3.3)	—	(3.3)
Prior year adjustment for FRS 17	2.5	(9.4)	(6.9)
At 1 January 2003, as restated	8.4	—	8.4
Charge for the year	6.8	—	6.8
Currency translation differences	0.4	—	0.4
	15.6	—	15.6
Asset recognised in debtors	3.0	—	3.0
At 31 December 2003	**18.6**	**—**	**18.6**

(20) PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

The deferred tax asset at 31 December 2003 of £3.0 million represents £0.6 million losses expected to be utilised against profits arising in 2004 and £2.4 million of other timing differences.

The sources of deferred tax and the amount for which no provision has been made are as follows:

	Provided		Not provided	
	2003 **£million**	2002 restated £million	**2003** **£million**	2002 £million
Group				
Capital allowances	**22.6**	12.6	**(0.6)**	(0.1)
Other timing differences	**1.7**	(2.6)	**(0.1)**	—
Unrelieved tax losses	**(8.7)**	(1.6)	**(7.7)**	(5.6)
Chargeable gains deferred by roll-over relief	**—**	—	**14.4**	13.8
Property revaluation	**—**	—	**5.1**	4.6
Capital losses	**—**	—	**—**	(0.9)
	15.6	8.4	**11.1**	11.8
Company				
Short term timing differences, in other debtors	**—**	(1.2)	**—**	—

No deferred tax has been provided on gains covered by roll-over relief as such tax, estimated to be £14.4 million (2002 £13.8 million), would only become payable if the replacement property was sold without roll-over relief being obtained. No deferred tax has been provided on property revaluations as such tax, estimated to be £5.1 million (2002 £4.6 million), would only become payable if the property were sold without further roll-over relief being obtained.

(21) PENSIONS

Financial Reporting Standard 17, "Retirement Benefits" (FRS 17) has been adopted in full with effect from 1 January 2003. The adoption of FRS 17 has required a change to the accounting treatment of defined benefit pension arrangements, such that the Group includes the assets and liabilities of these arrangements in the Group's balance sheet. Current service costs, curtailment and settlement gains and losses, and net financial returns are included in the profit and loss account in the period to which they relate. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

The Group operates several pension arrangements; the Group's total pension cost included within operating profit was £13.0 million (2002 £11.5 million, restated), being £7.2 million (2002 £6.4 million, restated) in respect of its defined benefit pension arrangements and £5.8 million (2002 £5.1 million) in respect of its defined contribution arrangements.

This total pension cost included within operating profit compares to £16.0 million (2002 £12.5 million), which would have been incurred under the previous accounting policy.

(21) PENSIONS (CONTINUED)

Restatement of comparatives

Prior year results have been restated as follows:

	Group operating profit £million	Net interest payable £million	Tax on profit on ordinary activities £million	Profit for the period £million
Group profit and loss account				
Year to 31 December 2002				
As previously stated	196.0	(46.9)	(57.7)	108.8
Adoption of FRS 17	1.0	—	(0.3)	0.7
As restated	197.0	(46.9)	(58.0)	109.5

	Other debtors £million	Provision for liabilities and charges £million	Net pension liabilities £million	Profit and loss account £million
Group balance sheet				
31 December 2002				
As previously stated	1,019.9	(18.6)	—	392.5
Adoption of FRS 17	(2.7)	6.9	(23.8)	(19.6)
As restated	1,017.2	(11.7)	(23.8)	372.9

UK scheme

The Group operates a principal UK pension scheme which has two plans: the UK Benefit Plan which is a funded defined benefit arrangement, and the UK Contribution Plan, which is a funded defined contribution arrangement. Both plans are administered by an independent company and their assets are held under trust separately from those of the Group.

The pension costs in respect of the UK Benefit Plan are assessed in accordance with the advice of Hewitt Bacon & Woodrow, an independent firm of actuaries. The most recent actuarial valuation used for this purpose was carried out as at 1 January 2003. This has been updated by Hewitt Bacon & Woodrow to take account of the requirements of FRS 17, in order to assess the liabilities at 31 December 2003.

Following the valuation, it was agreed to adopt an employer contribution rate of 10.9% of pensionable pay, effective from 1 January 2004. In addition annual payments of £5.5 million have been agreed for 2003, 2004 and 2005 and further annual payments of £4.3 million for the subsequent 11 years. Previously, the rate payable had been 13.3% of pensionable pay since 1 January 2001.

Other schemes

The Group also sponsors a number of defined benefit plans outside of the UK, some of which are material. In The Netherlands there is a defined benefit pension plan, which is administered by a separate pension fund. In France there are insured arrangements providing retirement and termination benefits. In Norway many employees participate in an industry-wide multi-employer scheme which is accounted for as a defined contribution plan in accordance with FRS 17. In addition, in Norway there are two insured defined benefit schemes in place, which are accounted for as defined benefit schemes. The costs of material defined benefit plans have been recognised in the Group financial statements in accordance with the requirements of FRS 17.

The financial assumptions for the non-UK plans are weighted averages of the assumptions used for the overseas plans included.

(21) PENSIONS (CONTINUED)

Other schemes (continued)

The main financial assumptions used by the actuaries at 31 December were:

	2003		2002		2001	
	UK Benefit Plan % pa	**Other European % pa**	UK Benefit Plan % pa	Other European % pa	UK Benefit Plan % pa	Other European % pa
Discount rate	**5.4**	**5.4**	5.4	5.5	5.9	5.5
Inflation rate	**2.8**	**2.0**	2.3	2.5	2.5	2.0
Salary increases	**3.8**	**2.4**	3.3	2.5	3.5	2.7
Pension in payment increases for members who joined:						
up to 31 December 1996 (pre-July 2003 service)	**5.0**	**1.6**	5.0	2.0	5.0	2.5
up to 31 December 1996 (post-June 2003 service)	**2.7**	**1.6**	—	—	—	—
from 1 January 1997	**2.7**	**1.6**	2.3	2.0	2.5	2.5

The market value of the assets and expected rates of return for the defined benefit schemes at 31 December were:

	2003		2002		2001	
	Expected long-term return % pa	**Value £million**	Expected long-term return % pa	Value £million	Expected long-term return % pa	Value £million
UK Benefit Plan						
Equities	**7.8**	**56.8**	7.5	40.8	7.9	45.3
Bonds	**4.8**	**20.2**	4.4	15.2	5.0	14.0
Other	**4.3**	**1.8**	4.0	2.7	4.9	1.8
		78.8		58.7		61.1
Other European benefit plans						
Equities	**8.0**	**4.3**	8.0	3.2	8.0	4.1
Bonds	**5.1**	**16.4**	5.1	13.5	5.0	9.8
Other	**5.0**	**5.5**	5.0	4.9	5.0	4.2
		26.2		21.6		18.1
Total		**105.0**		80.3		79.2

The value of the defined benefit pension scheme assets and liabilities can be summarised:

	2003			2002		
	UK Benefit Plan £million	**Other European £million**	**Total £million**	UK Benefit Plan £million	Other European £million	Total £million
Total market value of assets	**78.8**	**26.2**	**105.0**	58.7	21.6	80.3
Present value of scheme liabilities	**(116.2)**	**(37.3)**	**(153.5)**	(82.9)	(32.2)	(115.1)
Deficit in the schemes	**(37.4)**	**(11.1)**	**(48.5)**	(24.2)	(10.6)	(34.8)
Related deferred tax asset	**11.2**	**3.8**	**15.0**	7.3	3.7	11.0
Net pension liability	**(26.2)**	**(7.3)**	**(33.5)**	(16.9)	(6.9)	(23.8)

The net pension liability in respect of other pension schemes at 31 December 2003 was £0.8 million (2002 £nil).

(21) PENSIONS (CONTINUED)

Other schemes (continued)

The following amounts have been recognised in the financial statements:

Profit and loss account	**2003** UK Benefit Plan £million	Other European £million	Total £million
Operating profit			
Current service cost	**(4.9)**	**(2.4)**	**(7.3)**
Past service cost	**—**	**0.1**	**0.1**
Charge to operating profit	**(4.9)**	**(2.3)**	**(7.2)**
Net interest payable and similar charges			
Expected return on pension scheme assets	**4.2**	**1.4**	**5.6**
Interest on pension scheme liabilities	**(4.6)**	**(2.0)**	**(6.6)**
Net return on defined benefit pension schemes	**(0.4)**	**(0.6)**	**(1.0)**
Net pension expense before taxation	**(5.3)**	**(2.9)**	**(8.2)**

Profit and loss account	2002 UK Benefit Plan £million	Other European £million	Total £million
Operating profit			
Current service cost	(4.1)	(2.3)	(6.4)
Expected return on pension scheme assets	4.6	1.1	5.7
Interest on pension scheme liabilities	(4.0)	(1.7)	(5.7)
Net return on defined benefit pension schemes	0.6	(0.6)	—
Net pension expense before taxation	(3.5)	(2.9)	(6.4)

Statement of total recognised gains and losses	**2003** UK Benefit Plan £million	Other European £million	Total £million
Actual return on pension scheme assets less expected return on pension scheme assets	**5.0**	**(0.3)**	**4.7**
Experience gains and losses arising on the scheme liabilities	**(7.8)**	**2.0**	**(5.8)**
Changes in assumptions underlying the present value of the scheme liabilities	**(15.9)**	**(0.1)**	**(16.0)**
Actuarial (losses)/gains recognised	**(18.7)**	**1.6**	**(17.1)**

Statement of total recognised gains and losses	2002 UK Benefit Plan £million	Other European £million	Total £million
Actual return on pension scheme assets less expected return on pension scheme assets	(13.6)	(1.2)	(14.8)
Experience gains and losses arising on the scheme liabilities	—	(0.3)	(0.3)
Changes in assumptions underlying the present value of the scheme liabilities	(6.6)	1.8	(4.8)
Actuarial (losses)/gains recognised	(20.2)	0.3	(19.9)

(21) PENSIONS (CONTINUED)

Other schemes (continued)

	2003		2002	
	UK Benefit Plan £million	**Other European £million**	UK Benefit Plan £million	Other European £million
Movement in scheme deficits				
Deficit at 1 January	**(24.2)**	**(10.6)**	(6.2)	(8.7)
Current service costs	**(4.9)**	**(2.4)**	(4.1)	(2.3)
Past service costs	**—**	**0.1**	—	—
Contributions	**10.8**	**1.7**	5.7	1.2
Businesses acquired	**—**	**—**	—	0.1
Other finance income	**(0.4)**	**(0.6)**	0.6	(0.6)
Actuarial (losses)/gains	**(18.7)**	**1.6**	(20.2)	0.3
Currency translation differences	**—**	**(0.9)**	—	(0.6)
Deficits at 31 December	**(37.4)**	**(11.1)**	(24.2)	(10.6)

	2003		2002	
	UK Benefit Plan £million	**Other European £million**	UK Benefit Plan £million	Other European £million
Details of experience gains and losses				
Difference between expected and actual returns on scheme assets				
Amount	**5.0**	**(0.3)**	(13.6)	(1.2)
Percentage of scheme assets (%)	**6.3**	**(1.1)**	(23.2)	(5.6)
Experience gains and losses on scheme liabilities				
Amount	**(7.8)**	**2.0**	—	(0.3)
Percentage of present value of scheme liabilities (%)	**(6.7)**	**5.4**	—	(0.9)
Amount in Group statement of total recognised gains and losses				
Amount	**(18.7)**	**1.6**	(20.2)	0.3
Percentage of present value of scheme liabilities (%)	**(16.1)**	**4.3**	(24.4)	0.9

(22) SHARE CAPITAL

	Number million	Share capital 10p ordinary shares £million
Authorised share capital	**432.9**	**43.3**
Called up, issued and fully paid up		
At 1 January 2003	344.8	34.5
Shares issued during the year	5.9	0.6
At 31 December 2003	**350.7**	**35.1**

Details of shares allotted during the year were:

	Number million	Price paid per share £	Consideration £million
Share option exercises	0.7	1.92-5.00	**2.0**
Scrip elections in lieu of:			
2002 final dividend	3.6	4.21	**15.1**
2003 interim dividend	1.6	4.96	**7.9**
Share capital and share premium account movement	**5.9**		**25.0**
Of which:			
Share capital			0.6
Share premium account			24.4

(22) SHARE CAPITAL (CONTINUED)

Other schemes (continued)

Details of outstanding options over ordinary shares at 31 December 2003 were:

Year of grant	Price (p)	**Outstanding 2003**	Outstanding 2002	Normally exercisable from
1990 Savings related scheme				
1995	216.00	**—**	3,429	01.12.02 to 31.05.03
1996	192.00	**—**	91,349	01.07.03 to 31.12.03
1997	214.00	**—**	10,312	01.07.02 to 31.12.02
1997	214.00	**136,168**	139,265	01.07.04 to 31.12.04
1998	324.00	**13,299**	241,849	01.08.03 to 31.01.04
1998	324.00	**78,968**	83,371	01.08.05 to 31.01.06
1999	384.00	**—**	14,856	01.07.02 to 31.12.02
1999	384.00	**146,727**	158,581	01.07.04 to 31.12.04
1999	384.00	**45,095**	46,242	01.07.06 to 31.12.06
2000	291.00	**23,973**	393,379	03.07.03 to 02.01.04
2000	291.00	**264,739**	278,406	03.07.05 to 02.01.06
2000	291.00	**111,984**	129,785	03.07.07 to 02.01.08
2001	463.00	**246,769**	327,660	01.07.04 to 31.12.04
2001	463.00	**179,591**	260,885	01.07.06 to 31.12.06
2001	463.00	**35,454**	61,637	01.07.08 to 31.12.08
2002	480.00	**280,182**	474,556	01.07.05 to 31.12.05
2002	480.00	**208,805**	339,784	01.07.07 to 31.12.07
2002	480.00	**49,502**	86,037	01.07.09 to 31.12.09
2003	337.00	**836,823**	—	01.07.06 to 31.12.06
2003	337.00	**556,811**	—	01.07.08 to 31.12.08
2003	337.00	**82,354**	—	01.07.10 to 31.12.10
		3,297,244	3,141,383	
1990 Executive scheme				
1993	253.99	**—**	55,000	01.11.96 to 30.10.03
1994	260.00	**15,000**	60,000	21.10.97 to 20.10.04
1995	269.00	**372**	372	18.10.98 to 17.10.05
		15,372	115,372	
1997 Discretionary scheme				
1997	268.50	**36,872**	66,872	13.06.00 to 12.06.04
1998	429.50	**678,263**	1,011,778	07.05.01 to 06.05.05
1999	442.00	**544,500**	664,500	14.05.02 to 13.05.06
1999	435.00	**63,737**	90,222	27.05.02 to 26.05.06
2000	379.00	**843,199**	1,343,084	23.03.03 to 22.03.07
2001	592.00	**1,590,000**	1,800,000	06.04.04 to 05.04.08
2002	609.00	**1,850,000**	1,990,000	09.04.05 to 08.04.09
2003	489.00	**2,062,000**	—	21.05.06 to 20.05.13
		7,668,571	6,966,456	
1998 Long term incentive plan				
2001	0.0001	**—**	31,812	06.04.01 to 05.04.11
2002	0.0001	**9,852**	40,023	19.03.02 to 18.03.12
2003	0.0001	**106,352**	—	17.04.03 to 16.04.13
		116,204	71,835	

(23) SHARES TO BE ISSUED

The shares to be issued represent the estimated value of the shares, including share premium, that will be potentially issued for deferred consideration for the acquisition of Hedef Alliance, discounted to reflect the future payment date. The Group can elect to satisfy the deferred consideration for Hedef Alliance in cash or shares, or a combination thereof. Following improvements in the operating results of Hedef Alliance, the deferred consideration was increased by £6.5 million at 31 December 2003. In addition, £0.9 million of discount on deferred consideration was charged through the profit and loss account in the year.

(24) OTHER RESERVES

Group	Share premium account £million	Capital reserve £million	Profit and loss account £million
At 1 January 2003, as previously stated	419.8	2.2	392.5
Prior year adjustment for FRS 17	—	—	(19.6)
At 1 January 2003, as restated	419.8	2.2	372.9
Shares issued	24.4	—	—
Retained profit for the year	—	—	71.4
Transfer	—	0.4	(0.4)
Loss on sale of own shares	—	—	(0.1)
Actuarial loss on defined benefit pension	—	—	(17.1)
Deferred tax associated with defined benefit pension	—	—	5.0
Currency translation differences	—	—	13.8
Tax on currency translation differences on foreign currency borrowings	—	—	0.4
At 31 December 2003	**444.2**	**2.6**	**445.9**
Company			
At 1 January 2003	419.8	—	163.0
Shares issued	24.4	—	—
Loss on sale of own shares	—	—	(0.1)
Retained loss for the year	—	—	(1.2)
At 31 December 2003	**444.2**	**—**	**161.7**

The capital reserve represents non-distributable reserves arising in some countries.

Group	2003 £million	2002 restated £million
Profit and loss account excluding net pension deficit	**480.2**	396.7
Pension reserve	**(34.3)**	(23.8)
Profit and loss account	**445.9**	372.9

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented as part of these financial statements. The profit for the financial year dealt with in the profit and loss account of the Company was £55.9 million (2002 £132.9 million).

(25) INVESTMENT IN OWN SHARES

Group and Company	2003 £million	2002 £million
Employee Share Trust		
At 1 January	**26.1**	13.9
Additions	**—**	17.1
Disposals	**(3.0)**	(4.9)
At 31 December	**23.1**	26.1

The Employee Share Trust (ESOP) had an investment at 31 December 2003 of £23.1 million (2002 £26.1 million) in 5.3 million (2002 6.4 million) of the Company's shares. The market value of the holding at 31 December 2003 was £27.3 million (2002 £28.4 million). All dividends have been waived. The trust has been set up primarily to transfer shares to option scheme holders on exercise of their options with administrative costs absorbed by the Company.

(26) ACQUISITIONS

The Group has continued its development during the year through a number of business acquisitions, that have been accounted for by the acquisition accounting method, and are summarised for wholesale and retail acquisitions below.

	Book value at acquisition £million	Accounting policy alignment £million	Provisional fair value £million
Wholesale			
Assets acquired at book and fair value			
Fixed assets — tangible	0.4	0.4	**0.8**
— transfer from associate to subsidiary	(0.7)	—	**(0.7)**
Stocks	0.1	—	**0.1**
Creditors and provisions	(1.1)	—	**(1.1)**
Minority interests acquired	0.6	—	**0.6**
	(0.7)	0.4	**(0.3)**
Overdraft acquired	(0.1)	—	**(0.1)**
Borrowings acquired	—	(0.3)	**(0.3)**
Liabilities acquired	(0.8)	0.1	**(0.7)**

	£million
Consideration paid	
Cash	**(7.7)**
Deferred consideration movement	**1.5**
	(6.2)
Purchased goodwill	**6.9**

There were no fair value alignments in respect of wholesale acquisitions.

	Book and provisional fair value at acquisition £million
Retail	
Assets acquired at book and fair value	
Fixed assets — intangible	**48.4**
— tangible	**1.5**
— investments	**0.2**
Stocks	**4.7**
Debtors	**5.2**
Creditors and provisions	**(7.6)**
Minority interests acquired	**0.2**
Assets acquired	**52.6**

	£million
Consideration paid	
Cash	**(51.5)**
Loan notes	**(0.4)**
Deferred consideration	**(0.7)**
	(52.6)
Purchased goodwill	**—**

Retail acquisitions comprised the acquisition of 61 pharmacies in the UK, Norway and The Netherlands. There were no accounting policy or fair value alignments required in respect of these acquisitions.

At 31 December 2003, cumulative goodwill written off to reserves for businesses acquired prior to 1998, net of that attributable to disposals, was £360.8 million (2002 £360.8 million).

(27) CASH FLOW STATEMENT

(a) Reconciliation of Group operating profit to net cash inflow from operating activities

	2003 £million	2002 restated £million
Group operating profit	**217.7**	197.0
Depreciation	**41.2**	37.1
Amortisation of goodwill	**8.6**	8.5
Amortisation of pharmacy licences	**0.3**	0.4
Profit on disposal of fixed assets	**(9.7)**	(8.0)
(Increase)/decrease in stocks	**(39.4)**	50.1
Increase in debtors	**(60.3)**	(50.8)
Increase/(decrease) in creditors	**168.3**	(33.2)
Decrease in net pension liabilities	**(4.4)**	(0.5)
Net cash inflow from operating activities	**322.3**	200.6

(b) Returns on investments and servicing of finance

	2003 £million	2002 restated £million
Interest received	**9.5**	9.3
Interest paid	**(59.4)**	(57.0)
Dividends paid to minority shareholders	**(0.4)**	(0.4)
Interest element of finance lease payments	**(0.4)**	(0.5)
Net cash outflow from returns on investments and servicing of finance	**(50.7)**	(48.6)

(c) Capital expenditure and financial investment

	2003 £million	2002 restated £million
Purchase of fixed assets	**(47.9)**	(56.3)
Disposal of fixed assets	**9.9**	18.3
Loans to associated undertakings	**(22.2)**	(12.6)
Loans repaid by associated undertakings	**14.9**	0.8
Other investments (net)	**2.5**	(12.2)
Net cash outflow from capital expenditure and financial investment	**(42.8)**	(62.0)

(d) Acquisitions and disposals

	2003 £million	2002 restated £million
Purchase of businesses	**(59.2)**	(74.8)
Net overdrafts of businesses acquired	**(0.1)**	(8.5)
Purchase of shares in associated undertakings	**(1.2)**	(35.9)
Disposal of businesses	**—**	4.0
Net cash of businesses sold	**0.3**	—
Disposal of investment in associated undertakings	**13.4**	1.7
Net cash outflow from acquisitions and disposals	**(46.8)**	(113.5)

(28) NET CASH (OUTFLOW)/INFLOW FROM (DECREASE)/INCREASE IN DEBT AND LEASE FINANCING

	2003 £million	2002 £million
Debt due within one year:		
Net movement in money market borrowings maturing within one week	**(35.4)**	39.5
Decrease in short term borrowings	**(65.1)**	(67.3)
Borrowings due after one year:		
Increase in borrowings	**32.4**	267.0
Repayment of borrowings	**(10.5)**	(143.8)
Capital element of finance lease rental payments	**(1.7)**	(2.1)
Net cash (outflow)/inflow from (decrease)/increase in debt and lease financing	**(80.3)**	93.3

(29) ANALYSIS OF MOVEMENT IN NET BORROWINGS

	Cash at bank and in hand £million	Borrowings due within one year £million	Borrowings due after more than one year £million	Net borrowings £million
At 1 January 2003	149.7	(361.7)	(668.2)	(880.2)
Increase in cash	(35.1)	65.1	—	30.0
Decrease/(increase) in debt	—	102.2	(21.9)	80.3
Businesses acquired	—	(0.1)	(0.2)	(0.3)
Reclassification	—	(46.5)	46.5	—
Other non cash movement	—	(0.4)	—	(0.4)
Currency translation differences	2.6	(16.1)	(43.1)	(56.6)
At 31 December 2003	**117.2**	**(257.5)**	**(686.9)**	**(827.2)**

(30) MAJOR NON-CASH TRANSACTIONS

Part of the purchase consideration for the acquisition of retail pharmacy businesses comprised loan notes. Further details are set out in note 26. Part of the purchase consideration for the increased stake in Hedef Alliance comprises shares to be issued. Further details are set out in note 23.

(31) OTHER FINANCIAL COMMITMENTS

At 31 December 2003 the Group had the following commitments payable within one year under operating leases expiring:

	Land and buildings £million	Other £million
Within one year	1.9	1.6
Between one and two years	1.4	3.1
Between two and five years	5.0	2.5
Over five years	13.8	—
	22.1	**7.2**

(32) PRINCIPAL SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings all of which were indirectly held were:

Company	Interest in ordinary share capital	Country of operation	Country of incorporation	Main activity
Northern Europe Wholesale				
UniChem Limited	100%	UK	UK	pharmaceutical wholesaler
Interpharm B.V.	100%	The Netherlands	The Netherlands	pharmaceutical wholesaler
Alliance UniChem CZ Spo	97.1%	Czech Republic	Czech Republic	pharmaceutical wholesaler
Holtung A.S.	100%	Norway	Norway	pharmaceutical wholesaler
Southern Europe Wholesale				
Alliance Santé S.A.	99.7%	France	France	pharmaceutical wholesaler
Alleanza Salute Italia SpA	100%	Italy	Italy	pharmaceutical wholesaler and holding company
Safa Galenica S.A.	99.2%	Spain	Spain	pharmaceutical wholesaler
Alliance UniChem Farmacêutica S.A.	100%	Portugal	Portugal	pharmaceutical wholesaler
Retail				
E. Moss Limited	100%	UK	UK	retail pharmacy operator
Alliance UniChem Norge A.S.	100%	Norway	Norway	retail pharmacy operator
De Vier Vijzels B.V.	100%	The Netherlands	The Netherlands	retail pharmacy operator

As permitted by section 231(5) of the Companies Act 1985, only principal undertakings are shown. A complete list of all subsidiary undertakings is filed with the Company's annual return.

(33) PRINCIPAL ASSOCIATED UNDERTAKINGS

The principal associated undertakings were:

Company	Interest in ordinary share capital and voting rights	Country of operation	Country of incorporation	Main activity
Hedef Alliance Holding A.Ş.	50%	Turkey	Turkey	pharmaceutical wholesaler
Galenica A.G.[1]	25.5%	Switzerland	Switzerland	pharmaceutical wholesaler
Alloga S.A.[2]	20%	Europe	Luxembourg	holding company for a number of prewholesalers
GaleniCare S.A.[2]	50%	Switzerland	Switzerland	retail pharmacy operator
Unifarma Distribuzione S.r.l	36%	Italy	Italy	pharmaceutical wholesaler
Pharmapartners B.V.	40%	The Netherlands	The Netherlands	pharmaceutical software

1 All shares have the same voting rights, but no shareholder may exercise more than 20% of the votes.

2 The remaining shares are owned by Galenica A.G. which is itself an associated undertaking.

(34) RELATED PARTY TRANSACTIONS

The Group has entered into a contract with Hedef Alliance to develop and supply warehouse management and financial software.

Trading transactions with associated undertakings were:

	2003		2002	
	Turnover in year £million	**Balance at year end £million**	Turnover in year £million	Balance at year end £million
Unifarma Distribuzione S.r.l.	**0.2**	**—**	0.2	0.1
Hedef Alliance Holding A.Ş.	**0.3**	**—**	—	—
Alloga S.A. and subsidiaries	**2.1**	**0.3**	—	—
Pharmacy Initiative 1 Plc	**1.4**	**0.1**	1.2	0.1
Pharmacy Initiative 2 Plc	**1.2**	**0.1**	1.3	0.1
Pharmacy Initiative 3 Plc	**0.1**	**0.1**	—	—

	2003		2002	
	Purchases in year £million	**Balance at year end £million**	Purchases in year £million	Balance at year end £million
Unifarma Distribuzione S.r.l.	**0.6**	**0.2**	5.1	0.6
Alloga S.A. and subsidiaries	**92.3**	**3.9**	52.7	7.5

(35) CONTINGENT LIABILITIES

The Company has guaranteed bank loans of £37.0 million (2002 £42.5 million) and other Group companies have guaranteed bank loans of £31.8 million (2002 £33.6 million) to third parties for the financing of pharmacy businesses.

(36) POST BALANCE SHEET EVENTS

On 28 January 2004, the Group completed the purchase of 19% of the equity of Andreae-Noris Zahn AG ("ANZAG") at a cost before expenses of £41.7 million (€60.5 million), taking its shareholding to 29.99%. ANZAG is intended to be accounted for as an associate from this date.

PART IX

INFORMATION ON THE EXPECTED IMPACT OF THE MERGER ON THE ASSETS AND LIABILITIES OF THE BOOTS GROUP

The unaudited pro forma statement of net assets of the Enlarged Group in this Part IX is based on the net assets of the Boots Group as at 31 March 2006, set out in the audited financial statements of the Boots Group for the year ended on that date, and has been prepared on the basis of the notes set out below to illustrate the effect on the consolidated net assets of Boots of the Merger as if it was completed on 31 March 2006. The unaudited pro forma statement has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Boots Group's actual financial position or results. The pro forma financial information has been prepared under IFRS and on the basis set out in the notes below and in accordance with Annex 1 and Annex 2 of the Prospectus Directive Regulation EC 809/2004. The pro forma financial information is stated on the basis of the accounting policies of Boots.

		Adjustments		
	Boots Group[1] as at 31 March 2006 £million	Alliance UniChem Group[2] as at 31 December 2005 £million	Other adjustments[3] £million	Pro forma Enlarged Group[4] £million
ASSETS				
Non-current assets				
Intangibles and goodwill	**146.8**	**1,051.4**	**2,253.9**	**3,452.1**
Property, plant and equipment	**1,267.9**	**350.0**	**—**	**1,617.9**
Investments in associates	**—**	**394.5**	**—**	**394.5**
Available for sale investments	**—**	**48.4**	**—**	**48.4**
Other receivables	**32.7**	**27.2**	**—**	**59.9**
Deferred tax assets	**54.7**	**9.2**	**—**	**63.9**
Derivative financial instruments	**1.7**	**3.5**	**—**	**5.2**
	1,503.8	**1,884.2**	**2,253.9**	**5,641.9**
Current assets				
Inventories	**594.4**	**670.5**	**—**	**1,264.9**
Trade and other receivables	**461.3**	**1,419.4**	**(7.8)**	**1,872.9**
Current tax asset	**13.5**	**5.3**	**—**	**18.8**
Available for sale assets	**0.2**	**—**	**—**	**0.2**
Cash and cash equivalents	**856.0**	**133.5**	**(33.9)**	**955.6**
Derivative financial instruments	**0.7**	**0.6**	**—**	**1.3**
Non-current assets held for sale	**1.2**	**—**	**—**	**1.2**
	1,927.3	**2,229.3**	**(41.7)**	**4,114.9**
Total assets	**3,431.1**	**4,113.5**	**2,212.2**	**9,756.8**
LIABILITIES				
Current liabilities				
Short term borrowings and overdrafts	**(183.1)**	**(216.4)**	**—**	**(399.5)**
Financing linked to securitisation	**—**	**(289.4)**	**—**	**(289.4)**
Derivative financial instruments	**(0.3)**	**(12.2)**	**—**	**(12.5)**
Current tax liabilities	**(56.2)**	**(42.6)**	**—**	**(98.8)**
Trade and other payables	**(632.8)**	**(1,383.5)**	**—**	**(2,016.3)**
Provisions	**(62.1)**	**—**	**—**	**(62.1)**
	(934.5)	**(1,944.1)**	**—**	**(2,878.6)**
Non-current liabilities				
Borrowings	**(574.9)**	**(605.2)**	**—**	**(1,180.1)**
Financing linked to securitisation	**—**	**(103.3)**	**—**	**(103.3)**
Derivative financial instruments	**(0.3)**	**(83.4)**	**—**	**(83.7)**
Other payables	**(29.7)**	**—**	**—**	**(29.7)**
Deferred tax liabilities	**(96.5)**	**(123.6)**	**—**	**(220.1)**
Non-current tax liabilities	**(0.3)**	**—**	**—**	**(0.3)**
Retirement benefit obligations	**(56.2)**	**(69.1)**	**—**	**(125.3)**
Provisions	**(87.2)**	**—**	**—**	**(87.2)**
	(845.1)	**(984.6)**	**—**	**(1,829.7)**
Total liabilities	**(1,779.6)**	**(2,928.7)**	**—**	**(4,708.3)**
Net assets	**1,651.5**	**1,184.8**	**2,212.2**	**5,048.5**

Notes

1. The net assets of the Boots Group have been extracted without material adjustment from the audited financial statements of the Boots Group for the year ended 31 March 2006, which are set out in Part VII ("Historical Financial Information Relating to the Boots Group") of this document.
2. The net assets of the Alliance UniChem Group have been extracted without material adjustment from the audited financial statements of the Alliance UniChem Group for the year ended 31 December 2005, which are set out in Part VIII ("Historical Financial Information Relating to the Alliance UniChem Group") of this document.
3. The other adjustments reflect (i) the estimated intangibles and goodwill arising on the acquisition of the net assets of the Alliance UniChem Group and (ii) the Boots Group's estimated transaction expenses. For the purposes of this pro forma statement, no adjustment has been made to the individual net assets of the Alliance UniChem Group to reflect their fair value. The gross difference between the net assets of the Alliance UniChem Group as stated at book value at 31 December 2005 and the estimated consideration and the Boots Group's transaction expenses has

therefore been presented as a single value in "intangibles and goodwill". Following Completion, the net assets of the Alliance UniChem Group will be subject to a fair value restatement. The estimated consideration for Alliance UniChem is approximately £3,397 million based on the closing price of Boots Shares on 31 May 2006, being the last practicable Business Day prior to publication of this document and each Alliance UniChem Share being cancelled in consideration of the issue of 481,846,975 New Boots Shares (see Part II ("Information on the Merger") of this document for further details). The estimated transaction expenses are based on the Boots Directors' latest estimate of the Boots Group's transaction costs that may be capitalised as part of the overall consideration for the Merger, as referred to in paragraph 17 of Part XIII ("Additional Information") of this document.

	£million
Estimated consideration	3,397.0
Estimated transaction expenses to be incurred by the Boots Group	41.7
	3,438.7
Book value of Alliance UniChem Group net assets	(1,184.8)
Estimated intangibles and goodwill arising on Merger	2,253.9

4. No account has been taken of the financial performance of the Boots Group for the period since 31 March 2006, nor that of the Alliance UniChem Group since 31 December 2005, nor of any fair value adjustments that may be applied to the separate assets or liabilities of the Alliance UniChem Group upon Completion, nor of the required disposals contemplated by the OFT undertakings referred to in Part I ("Information on the Enlarged Group") of this document, nor of any other event save as disclosed above. The unaudited pro forma statement of net assets of the Enlarged Group does not constitute financial statements within the meaning of section 240 of the Companies Act.

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

KPMG Audit Plc
2 Cornwall Street
Birmingham B3 2DL

The Directors and the Proposed Directors
Boots Group PLC
1 Thane Road West
Nottingham
NG2 3AA

5 June 2006

Dear Sirs

Boots Group PLC ("the Company") and its subsidiaries ("the Group")

We report on the pro forma statement of net assets ("the pro forma financial information") set out in Part IX of the Company's prospectus dated 5 June 2006 ("the Prospectus"), which has been prepared on the basis described in Part IX, for illustrative purposes only, to provide information about how the Merger (as defined in the Prospectus) might have affected the financial information presented in respect of the Group on the basis of the accounting policies adopted by the Company in preparing its audited consolidated financial statements for the year ended 31 March 2006. This report is required by paragraph 20.2 of Annex 1 of Commission Regulation (EC) No 809/2004 ("the Prospectus Directive Regulation") and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

It is the responsibility solely of the directors and the proposed directors of the Company to prepare the pro forma financial information in accordance with paragraph 20.2 of Annex I of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors and the proposed directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) of the UK Listing Authority, we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG Audit Plc

PART X

ACCOUNTING POLICIES AND ESTIMATES

Reconciliation of UK GAAP Accounting Policies

The accounting policies of the Boots Group and the Alliance UniChem Group used in the preparation of their UK GAAP financial statements differed in respect of accounting for retirement benefits as follows:

- In its most recent set of audited UK GAAP financial statements (year ended 31 March 2005) the Boots Group applied SSAP 24 in respect of accounting for retirement benefits whilst making full disclosure in the notes to the financial statements of the effects of adopting FRS17. This was in accordance with the provisions of FRS17.

- Alliance UniChem Group fully adopted FRS17 in its UK GAAP financial statements for the two years ended 31 December 2004.

The financial information is reconciled below for the two years ended 31 December 2004 under UK GAAP.

Alliance UniChem Group financial statements for the two years ended 31 December 2004

Reconciliation of profit for the financial year

The table below provides a reconciliation of the profit for the financial year for each of the two years ended 31 December 2004 as published by Alliance UniChem Group to those results that would have been presented had the UK GAAP accounting policies of the Boots Group been applied.

	Year ended 31 December	
	2004 **£million**	2003 £million
Profit for the financial year as previously reported	**167.1**	128.5
Adjustment for retirement benefits	**(1.7)**	(1.5)
Profit for the financial year as restated	**165.4**	127.0

Reconciliation of net assets including net pension liabilities

The table below provides a reconciliation of the net assets including net pension liabilities as at 31 December 2004 and 31 December 2003 as previously published by Alliance UniChem Group to those net assets including net pension liabilities that would have been presented had the UK GAAP accounting policies of the Boots Group been applied.

	As at 31 December	
	2004 **£million**	2003 £million
Net assets including net pension liabilities as previously reported	**1,081.5**	940.3
Adjustment for retirement benefits	**34.0**	30.4
Net assets including net pension liabilities as restated	**1,115.5**	970.7

ACCOUNTANT'S REPORT ON RECONCILIATION OF UK GAAP ACCOUNTING POLICIES

KPMG Audit Plc
2 Cornwall Street
Birmingham B3 2DL

The Directors and the Proposed Directors
Boots Group PLC
1 Thane Road West
Nottingham
NG2 3AA

5 June 2006

Dear Sirs

Alliance UniChem Plc

We refer to the statement of material adjustments which would be required to consolidated profit for the financial year for each of the two years ended 31 December 2004 and to consolidated net assets including net pension liabilities as at 31 December 2003 and 2004 reported in the audited financial statements of Alliance UniChem Plc, prepared under United Kingdom Generally Accepted Accounting Principles, to restate the information in accordance with the accounting policies of the Boots Group PLC as adopted in its published financial statements for the year ended 31 March 2005 ("the reconciliation"). This report is required by paragraph 13.5.27R(2)(b) of the Listing Rules of the UK Listing Authority and is given for the purpose of complying with that paragraph and for no other purpose.

The reconciliation, which has been prepared for illustrative purposes only, is set out in Part X of the prospectus of the Boots Group PLC dated 5 June 2006 ("the Prospectus").

The reconciliation is based on the audited consolidated financial statements of Alliance UniChem Plc for the two years ended 31 December 2004 which were audited by Deloitte & Touche LLP. We express no opinion on those financial statements.

Responsibility

It is the responsibility solely of the directors and the proposed directors of the Boots Group PLC to prepare the reconciliation in accordance with paragraph 13.5.27R(2)(a) of the Listing Rules of the UK Listing Authority. It is our responsibility to form an opinion, as required by the Listing Rules, on the reconciliation and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board of the United Kingdom. Our work consisted primarily of considering the evidence supporting the reconciliation and discussing the reconciliation with the directors and the proposed directors of the Boots Group PLC.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion the reconciliation has been properly compiled on the basis stated therein. Further, in our opinion the adjustments are appropriate for the purpose of presenting the financial information (as adjusted) on a basis consistent in all material respects with the accounting policies of the Boots Group PLC.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) of the UK Listing Authority, we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with paragraph 1.2 of Annex I of Commission Regulation (EC) No. 809/2004.

Yours faithfully

KPMG Audit Plc

Accounting Estimates

The Directors of Boots are of the opinion that the accounting policy applied by the Boots Group in respect of retail pharmacy licences is consistent with that published by the Alliance UniChem Group.

The Directors of Boots note that differences exist between the Boots Group and the Alliance UniChem Group in the estimated economic lives of the pharmacy licences acquired by both groups. As a result of the significant capitalised retail pharmacy licences reported by the Alliance UniChem Group in its financial statements, the Directors of Boots have set out below the difference in the basis of estimation used for retail pharmacy licences by the Boots Group and the Alliance UniChem Group in their respective financial statements.

The Boots Group has not published a specific accounting policy for retail pharmacy licences because the amounts of such capitalised licences and the related amortisation are not material. The Directors of Boots are of the opinion that the accounting policy applied by the Boots Group in respect of retail pharmacy licences is consistent with that published by the Alliance UniChem Group. A small amount of book value in relation to retail pharmacy licences is included in intangible assets and the Boots Group's published accounting policy for such intangible assets is as follows:

"Product rights and licences

Product rights and licences acquired are shown at historic cost less accumulated amortisation and impairment losses. Similar assets created within the business are only capitalised when commercially feasible, otherwise, expenditure is charged against profits in the year in which it is incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the useful lives of the intangible assets unless such lives are indefinite. Intangible assets with an indefinite life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The useful lives are as follows:

Product rights up to 20 years;
Licences 20 years;
Software costs 3 to 8 years;
Capitalised development costs 3 to 5 years.

Amortisation periods and methods are reviewed annually and adjusted if appropriate."

The book value attributable to acquired retail pharmacy licences has been amortised by the Boots Group over their estimated useful lives of 20 years.

The Alliance UniChem Group's published accounting policy for retail pharmacy licences is as follows:

"Intangible assets — retail pharmacy licences

Retail pharmacy licences, being the exclusive right to be reimbursed for the dispensing of prescription medicines from a specified location, are capitalised where there is an asset that can be separated from other identifiable assets which together form a retail pharmacy business. Where such assets have a finite economic life, they are amortised over that economic life. Where such assets do not have a finite economic life, they are not amortised but are subjected to an annual impairment test, and any impairment arising is recognised in the income statement. The cost of retail pharmacy licences less any impairment and amortisation is included in intangible fixed assets."

Boots has been informed that the Alliance UniChem Group considers that its UK pharmacy licences do not have a finite economic life. Accordingly, in its last three financial statements it has not amortised UK pharmacy licences held on its balance sheets, instead carrying out annual impairment tests which have not resulted in any impairment.

The Directors of Boots and the Proposed Directors are not currently aware of any factors which would result in the Alliance UniChem Group's UK pharmacy licences not continuing to have an indefinite economic life.

PART XI

UK TAXATION CONSIDERATIONS

The comments set out below are of a general nature and are based on Boots' understanding of current United Kingdom law and HM Revenue & Customs practice, both of which are subject to change, possibly with retrospective effect. They are intended as a general guide only and apply only to Boots Shareholders who are resident, or are individuals ordinarily resident, for tax purposes in the United Kingdom (except insofar as express reference is made to the treatment of non-United Kingdom residents), who hold Boots Shares as an investment and who are the absolute beneficial owners thereof. Certain categories of shareholders, such as traders, broker-dealers, insurance companies, collective investment schemes and shareholders who have (or are deemed to have) acquired their shares by virtue of an office or employment, may be subject to special rules and this summary does not apply to such shareholders.

Boots Shareholders who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom, should consult their own professional advisers immediately.

Taxation of dividends

Boots is not required to withhold at source any amount in respect of United Kingdom tax when paying a dividend.

A Boots Shareholder who is an individual resident (for tax purposes) in the United Kingdom and who receives a dividend from Boots will be entitled to a tax credit equal to one-ninth of the dividend. The individual will be taxable on the total of the dividend and the related tax credit (the "gross dividend"), which will be regarded as the top slice of the individual's income. The tax credit will, however, be treated as discharging the individual's liability to income tax in respect of the gross dividend, unless and except to the extent that the gross dividend falls above the threshold for the higher rate of income tax, in which case the individual will, to that extent, pay tax on the gross dividend calculated as 32.5% of the gross dividend less the related tax credit. So, for example, a dividend of £80 will carry a tax credit of £8.89 and the income tax payable on the dividend by an individual liable to income tax at the higher rate would be 32.5% of £88.89, namely £28.89, less the tax credit of £8.89, leaving a net tax charge of £20.

A Boots Shareholder that is a company resident (for tax purposes) in the United Kingdom will not generally be taxable on any dividend it receives from Boots.

A Boots Shareholder who is not liable to tax on dividends received from Boots will not be entitled to claim payment of the tax credit in respect of those dividends.

The right of a Boots Shareholder who is not resident (for tax purposes) in the United Kingdom to a tax credit in respect of a dividend received from Boots and to claim payment of any part of that tax credit will depend on the existence and terms of any double taxation convention between the United Kingdom and the country in which the holder is resident. Boots Shareholders who are not solely resident in the United Kingdom should consult their own tax adviser concerning their tax liabilities on dividends received, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so.

Taxation of capital gains

Boots Shareholders who are resident or, in the case of individuals, ordinarily resident in the United Kingdom, or who cease to be resident or ordinarily resident in the United Kingdom or fall to be regarded as resident in a territory outside the United Kingdom for the purposes of double taxation arrangements for a period of less than five years of assessment, or who carry on a trade profession or vocation through a branch or agency, or in the case of a company, a permanent establishment, in the United Kingdom to which the shares are attributable, may, depending on their circumstances and any available exemption or relief, be liable to United Kingdom taxation on chargeable gains in respect of gains arising from a sale or other disposal of New Boots Shares.

Inheritance and gift taxes

The New Boots Shares will be assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax even if the holder is neither domiciled in the UK nor deemed to be domiciled there under certain rules relating to long residence or previous domicile. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies, partnerships and trustees of settlements who hold New Boots Shares, which may bring them within the charge to inheritance tax. Boots Shareholders should consult an appropriate professional adviser if they make a gift of any kind or intend to hold any New Boots Shares through trust arrangements. They should also seek advice where there is potential for a charge to UK inheritance tax or an equivalent tax in another country.

Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

Transfers on sale of New Boots Shares are generally subject to United Kingdom stamp duty at the rate of 0.5% of the consideration given for the transfer (rounded up to the next £5). The purchaser normally pays the stamp duty.

An agreement to transfer New Boots Shares or any interest in New Boots Shares will normally give rise to a charge to SDRT at the rate of 0.5% of the amount or value of the consideration payable for the transfer. SDRT is, in general, payable by the purchaser. If a duly stamped transfer in respect of the agreement is produced within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the agreement becomes unconditional) any SDRT paid is repayable, generally with interest, and otherwise the SDRT charge is cancelled.

Paperless transfers of New Boots Shares within the CREST system are generally liable to SDRT, rather than stamp duty, at the rate of 0.5% of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. Transfers of New Boots Shares into CREST will not generally be subject to SDRT, unless the transfer into CREST is itself for consideration.

Where New Boots Shares are issued or transferred (a) to, or to a nominee or agent for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT may be payable at the higher rate of 1.5% of the amount or value of the consideration given or, in certain circumstances, the value of the shares. The clearance service or depositary receipt operator or their nominee or agent, as the case may be, will strictly be required to account for this liability but it will generally pass the cost to the participants in the clearance service or depositary receipt scheme. Clearance services may opt, under certain conditions, for the normal rates of SDRT to apply to a transfer of shares into, and to transactions within, the service (in which case the above charge at the higher rate of 1.5% will not apply to an issue or transfer of shares into the clearance service).

Special rules apply to agreements made by market intermediaries and to certain sale and repurchase and stock borrowing arrangements. Charities are exempt from stamp duty and SDRT on the acquisition of shares.

PART XII

DIRECTORS, RESPONSIBLE PERSONS, CORPORATE GOVERNANCE AND EMPLOYEES

1. Responsible Persons

The Directors of Boots, whose names appear at paragraph 2 below, the Proposed Directors, whose names appear at paragraph 4 below, and Boots, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors of Boots, the Proposed Directors and Boots (who have taken all reasonable care to ensure that such is the case), such information is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect the import of such information.

2. Directors of Boots

The following table sets out information relating to each of the Directors of Boots.

Director	Age	Current position in respect of Boots
Chairman		
Sir Nigel Rudd	59	Chairman
Executive Directors		
Richard Baker	43	Chief Executive
Paul Bateman	53	Group Operations Director
Jim Smart	46	Chief Financial Officer
Non-Executive Directors		
Guy Dawson	53	Non-Executive Director
Tim Parker	50	Non-Executive Director
Hélène Ploix	61	Non-Executive Director
Dr. Martin Read	56	Non-Executive Director

Ages given are as at 31 May 2006, the latest practicable Business Day prior to the publication of this document.

The business address of each of the Directors is c/o Boots Group PLC, 1 Thane Road West, Nottingham, NG2 3AA.

3. Directors' Profiles

The names, business experience and principal business activities outside the Boots Group of the current Directors of Boots, as well as the dates of their initial appointment as Directors, are set out below:

Sir Nigel Rudd

Sir Nigel Rudd was appointed to the Boots Board in December 1999, was appointed deputy chairman in December 2001 and chairman on 15 September 2003. He is currently the non-executive chairman of Boots and is also the non-executive chairman of Pilkington and Pendragon. He is also deputy chairman of Barclays and chairman of the Boardroom Issues Group of the CBI. It is expected that Sir Nigel will shortly cease to be chairman and a member of the board of Pilkington. Sir Nigel is a chartered accountant and was previously executive chairman of Williams for nearly 20 years.

Richard Baker

Richard Baker was appointed to the Boots Board in September 2003. He was formerly the chief operating officer and group marketing officer at Asda. Prior to joining Asda, Richard worked for Mars where he progressed through a series of roles including national account management, brand marketing and then head of sales for UK multiples.

Paul Bateman

Paul Bateman was appointed to the Boots Board in April 2002. He is responsible for corporate communications, logistics, manufacturing, engineering and information services and technology. Paul joined Boots in 2001 to lead supply chain and business services development.

He worked previously for Procter & Gamble, where he gained many years of experience with global supply chains.

Jim Smart

Jim Smart was appointed to the Boots Board in October 2005. He joined Boots in 2003 as Group Financial Controller and was promoted to Acting Chief Financial Officer in May 2005. Jim was educated at Edinburgh University and trained as an accountant at Coopers & Lybrand. Before coming to Boots, Jim was at Abbey National for 15 years during which time he held a number of senior finance and operational positions including group financial controller, group finance director of First National Bank and corporate resources director.

Guy Dawson

Guy Dawson was appointed to the Boots Board in September 2003. He is chairman of the Boots audit committee and the senior independent director. Guy is a founding partner of Tricorn Partners, an independent corporate finance advisory business. He has previously held senior investment banking positions at Merrill Lynch and Deutsche Bank, advising major companies on a full range of corporate finance and strategic issues. He is also a non-executive director of The BOC Group.

Tim Parker

Tim Parker was appointed to the Boots Board in January 2004. Since 2004, he has been a member of the Boots audit, remuneration and social responsibilities committees. Tim is currently chief executive of the Automobile Association. He was chief executive of Kwik-Fit until 2004 and was previously chief executive of C. & J. Clark the footwear manufacturer and retailer. He also led the management buy-out and flotation of Kenwood Appliances plc. He was formerly a non-executive director of the Legal & General Group.

Hélène Ploix

Hélène Ploix was appointed to the Boots Board in September 2000. Hélène is chairman of the Boots social responsibilities committee and a member of the audit and remuneration committees. Hélène is chairman of Pechel Industries Partenaires, a private equity investment management company. She is also a non-executive director of BNP Paribas, Ferring, Lafarge and Publicis Groupe.

Dr. Martin Read

Dr. Martin Read was appointed to the Boots Board in 1999. He is chairman of the Boots remuneration committee. Dr. Read is group chief executive of LogicaCMG, one of the world's leading global IT solutions companies. Before taking over at Logica in 1993, he held a number of senior positions at GEC Marconi. He was appointed a non-executive director of British Airways in 2000 and served as a non-executive director of Asda from 1996 to 1999.

4. Proposed Directors

The Proposed Directors of Boots are as follows:

Director	Age	Position as from the Effective Date
Stefano Pessina	64	Executive Deputy Chairman
George Fairweather	48	Group Finance Director
Ornella Barra	52	Wholesale and Commercial Affairs Director
Steve Duncan	55	Community Pharmacy Director
Adrian Loader	57	Non-Executive Director
Patrick Ponsolle	61	Non-Executive Director
Manfred Stach	64	Non-Executive Director
Scott Wheway	39	Health and Beauty Retail Director

Ages given are as at 31 May 2006, the latest practicable Business Day prior to the posting of this document.

5. Profiles of the Proposed Directors

The names, business experience and principal business activities outside the Boots Group or, as the case may be, the Alliance UniChem Group, of the Proposed Directors as well as (where relevant) the dates of their initial appointment as Directors of Alliance UniChem, are set out below:

Stefano Pessina

Stefano Pessina was appointed to the Alliance UniChem Board in 1997, when the Alliance Santé group became part of the Alliance UniChem Group. Stefano has operational responsibility for strategic development, including acquisitions, having previously been Chief Executive for three years until December 2004. The Alliance Santé group had pharmaceutical wholesaling interests in a number of European countries, having been established in Italy by Stefano in 1977. Before this, Stefano held a number of academic posts and worked as an independent business consultant and for marketing research firm, AC Nielsen. Stefano is an engineer by profession. He is a non-executive director of Galenica and Hedef Alliance Holding, both associate companies of Alliance UniChem.

George Fairweather

George Fairweather was appointed to the Alliance UniChem Board upon joining the Alliance UniChem Group in April 2002. Before this, George held similar positions with Elementis and Dawson International, having previously worked for Dixons Group, Procter and Gamble and Thomson McLintock. George is a member of the Institute of Chartered Accountants of Scotland and a non-executive director of Mitchells & Butlers.

Ornella Barra

Ornella Barra was appointed to the Alliance UniChem Board in 1997, when the Alliance Santé group became part of the Alliance UniChem Group. Ornella has responsibility for the Alliance UniChem Group's commercial and pre-wholesaling activities, its wholesale business in Italy, Spain, Russia and the Czech Republic and corporate communications activities. Ornella was previously the president of a pharmaceutical distribution company founded by her in 1984. She is also a director of Alliance UniChem Farmacêutica, an associate company of Alliance UniChem, and is a pharmacist by profession.

Steve Duncan

Steve Duncan was appointed to the Alliance UniChem Board in January 2003 having had overall responsibility for the retail division since September 2001. In addition, Steve has responsibility for the Alliance UniChem Group's wholesale business in the Netherlands and Norway. Steve was appointed managing director of Alliance Pharmacy (formerly Moss Pharmacy) in 2000, having been a director since 1991. Steve joined the Alliance UniChem Group in 1974 and is a pharmacist and a member of the Royal Pharmaceutical Society of Great Britain.

Adrian Loader

Adrian Loader was appointed to the Alliance UniChem Board in September 2003. Adrian is director of strategy and business development at Royal Dutch Shell. He is chairman of the supervisory board of Deutsche Shell and a director of Holcim Limited. Previously he held senior management positions with Royal Dutch Shell in Europe, South America and Asia Pacific. Adrian is a Fellow of the Chartered Institute of Personnel and Development.

Patrick Ponsolle

Patrick Ponsolle was appointed to the Alliance UniChem Board in 1997. Patrick is Vice Chairman of Morgan Stanley International and chairman of Morgan Stanley (France). Before this, Patrick was executive chairman of Eurotunnel.

Manfred Stach

Manfred Stach was appointed to the Alliance UniChem Board in December 2003. Manfred is head of the supervisory board of Unilever Deutschland, chairman of the supervisory board of Unilever Austria and a member of the supervisory boards of British American Tobacco (BAT) Germany and Neumann Coffee Group. Manfred was president of Unilever Bestfoods Europe until June 2005, having previously held a number of senior executive positions within Unilever in Europe, North America and Africa.

Scott Wheway

Scott Wheway joined Boots in January 2005 from Tesco where he was CEO of Tesco Japan. He is currently Retail director of BTC. Having started with Tesco at the age of 18 as a management trainee, he became a store manager at the age of 22, and subsequently progressed to positions such as stores director, retail office director and operations director.

6. Interests of the Directors of Boots and the Proposed Directors

At close of business on 31 May 2006 (being the latest practicable Business Day prior to the publication of this document), the interests of the Directors and the Proposed Directors, their immediate families and (so far as is known to them or could with reasonable diligence be ascertained by them) persons connected (within the meaning of section 346 of the Act) with the Directors and the Proposed Directors in the issued share capital of Boots (all of which are beneficial unless otherwise stated), including (i) those notified to Boots pursuant to section 324 or 328 of the Act; (ii) those required to be entered into the register maintained under section 325 of the Act; and (iii) those of connected persons of the Directors of Boots and the Proposed Directors which would, if the connected persons were Directors of Boots or Proposed Directors, be required to be disclosed under (i) or (ii) above, together with what interests are expected to subsist immediately following Completion are shown below:

	As at 31 May 2006		Immediately following Completion[1]	
	Number of Boots Shares	Percentage of issued share capital of Boots	Number of Boots Shares	Percentage of issued share capital of Boots
Directors				
Sir Nigel Rudd	31,600	0.01%	31,600	0.01%
Richard Baker	6,243	0.01%	6,243	0.01%
Paul Bateman	6,347	0.01%	6,347	0.01%
Jim Smart	554	0.01%	554	0.01%
Guy Dawson	2,689	0.01%	2,689	0.01%
Tim Parker	4,263	0.01%	4,263	0.01%
Hélène Ploix	2,740	0.01%	2,740	0.01%
Dr. Martin Read				
Proposed Directors				
Stefano Pessina	–	–	144,946,207	14.98%
George Fairweather	–	–	2,664	0.01%
Ornella Barra	–	–	493,165	0.05%
Steve Duncan	–	–	25,761	0.01%
Adrian Loader	–	–	8,160	0.01%
Patrick Ponsolle	–	–	666	0.01%
Manfred Stach	–	–	–	–
Scott Wheway	–	–	–	–
Total	86,036	0.02%[3]	145,531,059	15.04%

1 Figures are calculated assuming that the interests of the Directors and of the Proposed Directors in Boots and Alliance UniChem as at close of business on 31 May 2006 do not change, that the maximum number of New Boots Shares are issued in connection with the Merger and that no other issues of Boots Shares occur between the publication of this document and Completion.

2 Almost all of the 15% interest of Stefano Pessina will be held by Alliance Santé Participations S.A.. Stefano Pessina indirectly wholly owns Alliance Santé Participations S.A., the directors of which include Stefano Pessina and Ornella Barra.

3 Rounded to two decimal places.

Details of options and other deemed beneficial interests over Boots Shares held by the Directors of Boots and Scott Wheway and details of options over Alliance UniChem Shares held by the Proposed Directors (excluding Scott Wheway) are set out below. Such interests are not included in the interests of the Directors of Boots and of the Proposed Directors shown in the table above.

The Directors of Boots and Scott Wheway had interests in the following options and awards relating to Boots Shares under Boots Share Option Schemes as at 31 May 2006, being the latest practicable Business Day prior to the publication of this document:

Optionholder	Share plan/scheme	Date of grant/ award	No. of Boots Shares	Exercise price pence	Exercise period
Richard Baker	The Executive Share Option Plan	18.09.03	181,950	687	18.09.06 – 17.09.13
	The Executive Share Option Plan	14.06.04	99,536	647	14.06.07 – 13.06.14
	Individual Option Plan	18.09.03	90,975	687	18.09.06 – 17.09.13
Paul Bateman	The Executive Share Option Plan	12.09.01	26,428	630	12.09.04 – 11.09.11
	The Executive Share Option Plan	18.06.02	40,944	635	18.06.05 – 17.06.12
	The Executive Share Option Plan	23.06.03	49,504	606	23.06.06 – 22.06.13
	The Executive Share Option Plan	14.06.04	54,095	647	14.06.07 – 13.06.14
Jim Smart	The Executive Share Option Plan	23.06.03	25,371	606	23.06.06 – 22.06.13
	The Executive Share Option Plan	14.06.04	24,517	647	14.06.07 – 13.06.14
Scott Wheway	–	–	–	–	–

Certain of the Directors of Boots and Scott Wheway also hold contingent interests in Boots Shares under the Boots Performance Share Plan, approved by Boots shareholders in July 2005. On 31 October 2005, Boots made a number of awards under the terms of the plan contingent upon Boots attaining certain performance targets over a three year period. Should the highest performance targets be attained and the maximum number of Boots Shares awarded on 31 October 2005 vest in each participant, the following shall receive:

Name of Director	Boots Shares
Richard Baker	273,605
Paul Bateman	118,851
Jim Smart	28,103
Scott Wheway	53,648

Further details of the Boots Performance Share Plan are given in paragraph 5 of Part XIII (“Additional Information”) of this document.

Pending Completion, it is intended that no further awards under the Boots Performance Share Plan will be made to Boots Directors. It is currently intended (subject to removal of the general prohibition on the grant of awards more than four months after the start of the performance period) to grant awards following establishment of suitable performance targets following Completion. Boots’ register of Directors’ interests, which is open to inspection, contains full details of the Directors of Boots’ shareholdings and of their options to subscribe for shares.

At the close of business on 31 May 2006 (being the latest practicable Business Day prior to publication of this document), each executive Director of Boots and also Scott Wheway was also deemed, as a potential beneficiary, to have an interest in:

- 589,619 Boots Shares held by Boots ESOP Trust Limited, on behalf of Boots Employee Trust, established to facilitate the operation of the Boots’ executive bonus scheme;

- 5,347,119 Boots Shares held by Boots (QUEST) Trustee Limited, on behalf of Boots Qualifying Employee Share Trust, established in connection with Boots' UK all-employee SAYE Share Option Scheme; and
- 2,043,374 Boots Shares held by Boots Share Plan Trustees Limited, established to hold shares for employees in connection with Boots' all employee share ownership plan.

As is described below, it is intended that, in connection with the Merger, a proposal will be made to certain holders of options under the Alliance UniChem Savings Related Option Scheme 1990 for such optionholders to exchange their options for options over Boots Shares. Further details are given in Part II ("Further Information on the Merger") of this document.

Certain of the Proposed Directors had the following options and awards relating to Alliance UniChem Shares under the Alliance UniChem Savings Related Share Option Scheme 1990 and the Alliance UniChem Share Incentive Plan as at 31 May 2006, being the latest practicable Business Day prior to the publication of this document:

Option/award holder	Share plan/scheme	Date of grant/award	Number of Alliance UniChem Shares	Exercise price pence	Exercise period
Stefano Pessina	–	–	–	–	–
George Fairweather	Savings Related Share Option Scheme 1990	15.04.03	2,804	337.00	01.07.06 – 31.12.06
	Share Incentive Plan	16.05.05	16,419	0.01	16.05.05 – 15.05.15
	Share Incentive Plan	07.03.06	21,687	0.01	07.03.06 – 06.03.16
Ornella Barra	–	–	–	–	–
Steve Duncan	Savings Related Share Option Scheme 1990	06.04.04	3,715	440.00	01.07.09 – 31.12.09

Certain of the Proposed Directors had the following allocations outstanding under the Alliance UniChem Share Incentive Plan as at 31 May 2006, being the latest practicable Business Day prior to the publication of this document:

Proposed Director	2004 allocation maximum amount £	Performance period applicable to 2004 allocation	2005 allocation maximum amount £	Performance period applicable to 2005 allocation
Stefano Pessina	300,000	01.01.04 – 31.12.06	485,000	01.01.05 – 31.12.07
George Fairweather	233,333	01.01.04 – 31.12.06	375,000	01.01.05 – 31.12.07
Ornella Barra	193,333	01.01.04 – 31.12.06	310,000	01.01.05 – 31.12.07
Steve Duncan	186,666	01.01.04 – 31.12.06	315,000	01.01.05 – 31.12.07

Pending Completion, the executive Proposed Directors (excluding Scott Wheway) were not awarded an allocation under the Alliance UniChem Share Incentive Plan for 2006. It is currently intended (subject to removal of the general prohibition on the grant of awards more than four months after the start of the performance period) to grant the executive Proposed Directors (excluding Scott Wheway) awards, under the Boots Performance Share Plan following Completion following establishment of suitable performance targets.

Save for the irrevocable undertaking described in paragraph 9 of Part XIII ("Additional Information") of this document or as disclosed in this paragraph 6, no Director of Boots or Proposed Director nor their immediate families, nor any person connected with any Director of Boots or Proposed Director within the meaning of Section 346 of the Act, has any interests (beneficial or non-beneficial) in the share capital of Boots or of any of its subsidiaries.

Save for the irrevocable undertaking described in paragraph 9 of Part XIII ("Additional Information") of this document and the supply agreement described in the paragraph immediately below, no Boots Director or Proposed Director has, or has had, any interest in any transaction which is or was unusual in its nature or conditions or which is or was significant to the business of Boots and which was effected by Boots during the current or immediately preceding financial year and which remains in any respect outstanding or unperformed.

Stefano Pessina has an interest in a supply agreement dated 12 September 2003 between a subsidiary of Alliance UniChem and a subsidiary of Boots by virtue of the fact that he, and certain Luxembourg companies controlled by him, hold approximately 30% of the issued share capital of Alliance UniChem.[1]

There are no outstanding loans granted by Boots or any member of the Boots Group to any of the Directors or Proposed Directors nor has any guarantee been provided by Boots or any of its subsidiaries for their benefit.

7. Remuneration of the Directors of Boots and of the Proposed Directors

This section provides information on the remuneration arrangements for the Directors of Boots and the Proposed Directors. It is expected that the remuneration arrangements for the Directors of Boots and the Proposed Directors will be reviewed by the Remuneration Committee of Boots following Completion but that, until such time, the current remuneration arrangements of each of the Directors of Boots and of the Proposed Directors will continue to apply.

The Executive Directors of Boots

Richard Baker entered into a service contract with Boots on 8 August 2003. He is the Chief Executive of Boots and has a current basic salary of £663,000. His basic salary from 1 June 2006 will be £696,000. In addition to a basic salary, the executive remuneration package includes a short term executive bonus scheme, a Performance Share Plan/long term bonus scheme, a bonus coinvestment plan (which has replaced the executive share option plan), pension and other benefits (including a company car, or payment in lieu, sick pay, holidays and other benefits comparable to those provided by other major UK companies). The service contract terminates when Richard Baker reaches the age of 60. It is also terminable by Boots on one year's notice. The service contract contains provisions relating to pay in lieu of notice under which, should Richard Baker's contract be terminated with less notice than provided for in the contract, he will receive 85% of the salary, pension and short term bonus and other benefits he would have received had he been given the notice to which he was entitled under his contract but without receiving any compensation for any loss of long term incentives or share options.

Paul Bateman entered into a service contract with Boots on 25 July 2002. He is the Operations Director of Boots and has a current base salary of £360,000. His basic salary from 1 June 2006 will be £378,000. In addition to his basic salary, the executive remuneration package includes a short term executive bonus scheme, a Performance Share Plan/long term bonus scheme, a bonus coinvestment plan (which has replaced the executive share option plan), pension and other benefits (including a company car, or payment in lieu, sick pay, holidays and other benefits comparable to those provided by other major UK companies). The service contract terminates when Paul Bateman reaches the age of 60. It is also terminable by Boots on one year's notice. The service contract does not contain provisions relating to compensation on termination[2]. It is intended that Paul Bateman will remain an employee of Boots for a transitional period following Completion, although he will leave the Boots Board on the Effective Date.

Jim Smart was appointed to the Boots Board and as Chief Financial Officer on 3 October 2005. He entered into a formal service contract with Boots on 17 May 2006 and has a current

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1 Almost all of the 30% of the issued share capital of Alliance UniChem held directly or indirectly by Stefano Pessina is held by Alliance Santé Participations S.A., a company registered in Luxembourg. Stefano Pessina indirectly wholly owns Alliance Santé Participations S.A., the directors of which include Stefano Pessina and Ornella Barra.

2 The policy of the Remuneration Committee on termination of executive Directors' service contracts (save for that of Richard Baker for which the provisions are set out above) is that, in the event of any service contract being terminated by Boots with less than the contractual period of notice, the requirement for the Director to mitigate his loss, where appropriate, is taken into account in determining any resulting compensation.

base salary of £350,000. His basic salary from 1 June 2006 will be £385,000. In addition to his basic salary, the executive remuneration package includes a short term executive bonus scheme, a Performance Share Plan/long term bonus scheme, a bonus coinvestment plan (which has replaced the executive share option plan), pension and other benefits (including a company car, or payment in lieu, sick pay, holidays and other benefits comparable to those provided by other major UK companies). The service contract terminates when Jim Smart reaches the age of 60. It is also terminable by Boots on one year's notice. The service contract does not contain provisions relating to compensation on termination. Boots has agreed with Jim Smart that if the Merger becomes effective and if, as expected, his appointment as chief financial officer is terminated without notice as a consequence of the Merger, then he will receive a redundancy payment in accordance with Boots' redundancy policy, 10 months basic pay and car allowance and a sum equal to that he might reasonably have been expected to receive under the bonus schemes in which he participates had he been given and accepted 10 months notice, and his pension will be enhanced for that period.

The Boots short term executive bonus scheme rewards executive Directors for achieving operating efficiencies and profitable growth in the relevant year by reference to challenging but achievable targets derived at the beginning of the year from strategic plans. It also rewards personal performance. The maximum short term bonus that could be earned in the year 2005/06 was 100% of basic salary. One-third of the available bonus depended on individual performance against personal targets, and two-thirds depended upon business performance targets for operating profit (one-third of the available bonus), sales and return on capital (one-sixth each). Achieving the targets set by the Board on all business measures would generate a bonus of 50% of the maximum bonus available for those measures. The business targets were chosen for their relevance in driving short term performance of the business. The Boots Remuneration Committee has decided that, in respect of the financial year ending 31 March 2007, if the Merger becomes effective, that performance to the Effective Date will be measured, and that business targets for the remainder of the year may be reviewed, to ensure that they remain appropriate for the Enlarged Group.

All executive Directors of Boots receive pension entitlements from the Boots Pension Scheme, referred to in paragraph 7 of Part XIII ("Additional Information") of this document, and supplementary pension arrangements which are aimed at providing a pension (when taken together with retained benefits from other employment) of two-thirds final base salary at normal retirement age.

The table sets out details of pensions earned by the executive Directors of Boots as at 31 March 2006:

	Accrued pension at 31 March 2006 £000	Increase in accrued pension during the year to 31 March 2006 gross of inflation per annum £000	Increase in accrued pension during the year to 31 March 2006 net of inflation per annum £000	Transfer value of accrued benefits at 31 March 2005 £000	Transfer value of accrued benefits at 31 March 2006 £000	Increase in transfer value of benefits less Directors' contributions £000	Transfer value of net-of-inflation increase in accrued benefits less Directors' contributions £000
Richard Baker	49	19	18	360	724	328	238
Paul Bateman	81	17	14	997	1,462	445	243
Jim Smart	30	21	21	114	484	351	325

Non-Executive Directors of Boots

The Chairman and each of the other non-executive Directors of Boots has a written letter of appointment with Boots, terminable by either party without notice or compensation. Non-executive Directors are appointed for an initial term of three years from the annual general meeting following their joining of the Board and, subject to performance and reappointment where appropriate, there is an expectation of renewal of that appointment for a further three-year period.

Other benefits for non-executive Directors comprise travel, subsistence and accommodation costs, security costs (in some cases) and the related tax benefit in kind. Non-executive Directors are not members of any of Boots' pension arrangements.

Analysis of Directors of Boots' Emoluments

An analysis of emoluments of the Directors of Boots relating to their salary and fees, short term executive bonus and other benefits (other than share options, long-term bonus scheme and pensions) for the year to 31 March 2006 is shown below:

	Salaries and fees £000	**Short term bonuses £000**	**Other benefits £000**	**Total 2006 £000**	Total 2005 £000
Sir Nigel Rudd	285	—	12	**297**	318
Richard Baker	660	477	44	**1,181**	1,024[1]
Paul Bateman	358	259	24	**641**	391
Jim Smart	338	237	14	**589**	220
Guy Dawson	53	—	1	**54**	54
Tim Parker	38	—	1	**39**	38
Hélène Ploix	43	—	11	**54**	49
Dr Martin Read	43	—	2	**45**	45

1 Mr R A Baker's salary for 2005 includes £200,000 and £151,000, being compensation for the loss of his part vested Asda share options and relocation expenses respectively.

The Executive Proposed Directors (excluding Scott Wheway)

Alliance UniChem has entered into service contracts with each of the executive Proposed Directors (excluding Scott Wheway), the particulars of which as at 1 January 2006 are set out below. These service contracts will remain in place following Completion.

Name	**Date of agreement**	**Expiry terms**	**Basic salary £**
Stefano Pessina	10.12.02	Indefinite term: terminable on 12 months' notice by Alliance UniChem or 6 months' notice by Stefano Pessina	510,000
George Fairweather	28.03.02	Indefinite term: terminable on 12 months' notice by either party	390,000
Ornella Barra	10.12.02	Indefinite term: terminable on 12 months' notice by Alliance UniChem or 6 months' notice by Ornella Barra	330,000
Steve Duncan	29.12.95	Indefinite term: terminable on 12 months' notice by either party	330,000

Each of the service contracts provides that termination of the Director's employment may be made by making a payment in lieu of notice to the Director, in lieu of the relevant notice period.

Each of the executive Proposed Directors (excluding Scott Wheway) is entitled to participate in the Alliance UniChem annual performance bonus scheme subject to the rules of such programme as amended from time to time. This bonus is based on achievement of a budgeted performance target established by the Board of Alliance UniChem at the end of the previous year. The maximum bonus an executive Proposed Director (excluding Scott Wheway) could receive in 2005 was 100% of basic salary; 80% of the bonus is based on adjusted profit for the year attributable to equity shareholders (which is after tax and excludes exceptional items and IAS 39 timing differences) and 20% is based on personal performance. For those executive Proposed Directors with specific business responsibilities (Steve Duncan and Ornella Barra), half of their financial performance target was based on the results of the Alliance UniChem Group as a whole and half on the combined performance of the businesses for which they have responsibility.

The executive Proposed Directors (excluding Scott Wheway) also participate in the Alliance UniChem Share Incentive Plan under which allocations are made to executive Directors of Alliance UniChem with the aim of rewarding them for creating shareholder value. Each allocation takes the form of a non-binding statement of intent to make an award over a specified number of Alliance UniChem Shares following the end of a specified performance period. The allocation is determined as a percentage of basic salary payable in the year that the performance period starts.

In addition to the Alliance UniChem Share Incentive Plan, Alliance UniChem operates the Savings-Related Share Option Scheme 1990 which is open to all employees of the Alliance UniChem Group including George Fairweather and Steve Duncan.

For further information on the proposals which have been agreed for allocations under the Alliance UniChem Share Incentive Plan and options under the Alliance UniChem 1997 Share Option Scheme as held by the executive Proposed Directors, please refer to paragraph 5 of Part XIII ("Additional Information") of this document.

In addition to their basic salaries, George Fairweather and Steve Duncan are entitled by way of benefits to contributions by Alliance UniChem to Alliance UniChem's pension schemes. Alliance UniChem is responsible for any contributions to such scheme as would otherwise be payable by the Alliance UniChem executive director.

The executive Proposed Directors (excluding Scott Wheway) had accrued entitlements under defined benefit pension schemes as at 31 December, 2005 as follows:

	Accrued pension £000	Transfer value £000
Steve Duncan	106	1,683
George Fairweather	13	149

From 6 April 2006, Steve Duncan, who is a member of the Alliance UniChem Group Pension Scheme, ceased to accrue pension benefits in respect of future service. His accrued pension benefit remains linked to final pensionable salary as defined in the Alliance UniChem 1993 Pension Scheme. From 6 April 2006, Mr Duncan has received a supplementary payment set at 40% of his basic salary.

George Fairweather is a member of the Alliance UniChem 1993 Pension Scheme which is a funded unapproved retirement benefit scheme. This is a money purchase arrangement which aims to provide limited targeted benefits on basic salary in excess of the earnings cap. An actuarial review identified a funding deficit under the Alliance UniChem 1993 Pension Scheme in relation to service by George Fairweather up until 31 December 2005 of approximately £108,000 which has now been eliminated. The detailed pension arrangements of George Fairweather following 6 April 2006 are in the process of being finalised.

Ornella Barra is a member of a tax approved pension scheme to which defined contributions are made by the Alliance UniChem Group. Subject to Ornella Barra only selecting investments offered by the scheme, a certain level of benefits payable at retirement is guaranteed.

Stefano Pessina has no pension benefits.

Each of the executive Proposed Directors (excluding Scott Wheway) is also entitled to the provision of company cars or a car allowance, private medical insurance, and, for Stefano Pessina and Ornella Barra, the cost of travel to and from work, accommodation and subsistence while working for the Alliance UniChem Group in the United Kingdom. Where an executive Proposed Director is entitled to a benefit but chooses not to take that benefit, a cash supplement is paid in lieu of that benefit.

Arrangements with Scott Wheway

Boots has entered into a letter of appointment with Scott Wheway, the particulars of which are set out below:

Name	Date of agreement	Expiry terms	Basic salary £
Scott Wheway	No service contract	Terminable by 12 months' notice by either party	325,000

In addition to his basic salary, Scott Wheway is entitled to participate in a short term executive bonus scheme, a Performance Share Plan/long term bonus scheme, a bonus coinvestment plan (which has replaced the executive share option plan), pension and other benefits (including a company car, or payment in lieu, sick pay, holidays and other benefits comparable to those provided by other major companies).

Details of pensions earned by Scott Wheway as at 31 March 2006 are shown below:

	Accrued pension at 31 March 2006 £000	Increase in accrued pension during the year to 31 March 2006 gross of inflation per annum £000	Increase in accrued pension during the year to 31 March 2006 net of inflation per annum £000	Transfer value of accrued benefits at 31 March 2005 £000	Transfer value of accrued benefits at 31 March 2006 £000	Increase in transfer value of benefits less contributions £000	Transfer value of net-of-inflation increase in accrued benefits less contributions £000
Scott Wheway	7	6	6	11	88	61	58

The Non-Executive Proposed Directors

All non-executive Proposed Directors are non-executive Directors of Alliance UniChem and were entitled to a basic fee of £45,000 for the year ended 31 December 2005 and an additional fee of £5,000 for membership of the audit committee. The fees paid reflect the time non-executive Directors of Alliance UniChem are required to commit to their duties and amounts paid to non-executives in comparable companies. Adrian Loader, Manfred Stach and Patrick Ponsolle each have a written letter of appointment with Alliance UniChem terminable by either party on one month's notice.

Each non-executive Director of Alliance UniChem derives no other benefit from his office and is not eligible to participate in the Alliance UniChem's pension arrangements.

Analysis of Proposed Directors' Emoluments

The emoluments of the Proposed Directors (excluding Scott Wheway) for the financial year ended 31 December 2005 were:

	Salaries and fees £000	Benefits £000	Salary supplement £000	Bonus payments £000	Total emoluments excluding pensions 2005 £000	Total emoluments excluding pensions 2004 £000
Executive Directors						
Stefano Pessina	485	54	—	315	**854**	729
George Fairweather	375	22	48[1]	225	**670**	605
Ornella Barra	310	19	—	256	**585**	454
Steve Duncan	315	20	—	260	**595**	440
Non-Executive Directors						
Adrian Loader	50	—	—	—	**50**	40
Patrick Ponsolle	50	—	—	—	**50**	40
Manfred Stach	50	—	—	—	**50**	35

1 Salary supplements include cash payments and long-term financial provision.

The emoluments of Scott Wheway[1] for the financial year ended 31 March 2006 were:

	Salaries and fees £000	Bonus £000	Other benefits £000	Total emoluments excluding pensions 2006 £000	2005 £000
Scott Wheway	324	235	58	617	404

8. Corporate Governance

The Boots Board is firmly committed to high standards of corporate governance. During the year to 31 March 2006, Boots complied with the Combined Code on Corporate Governance (July 2003).

It is intended that, following Completion, the Boots Board will review Boots' corporate governance arrangements but, pending the outcome of such review, the arrangements set out in this paragraph will continue to apply. It is intended that Boots will continue to comply with the Combined Code on Corporate Governance (July 2003) following the outcome of such review.

The Board

Details of: (i) the roles of Boots Board members; (ii) matters reserved for a decision of the Boots Board; (iii) the Boots Group's Corporate Governance framework (save for the Disclosure Committee, details of which are set out below); and (iv) the independence and appointment of non-executive Directors of Boots, are set out in Boots' Corporate Governance Report, which forms part of Boots' 2005 Annual Report and Accounts and is incorporated into this document by reference.

Boots Board Audit Committee

Current Members

Guy Dawson (chairman)
Tim Parker
Hélène Ploix

Following Completion, it is intended that the Board Audit Committee of Boots will comprise of Guy Dawson (chairman), Patrick Ponsolle, Adrian Loader and Hélène Ploix.

Role of the Board Audit Committee

The main responsibilities of the Boots Board Audit Committee are to:

- monitor the integrity and clarity of the financial information and of the major financial statements of Boots, and to review any significant financial reporting issues and judgements those statements contain;
- approve the annual external audit plan and to review with the external auditors the nature, scope and results of their audit, and any control issues raised by them;
- make recommendations as to the appointment, terms of engagement and remuneration of the external auditors and review any question of their resignation or removal, and to review the effectiveness of the external auditors and their independence;
- review the consistency of and any changes to accounting policies, the application of appropriate accounting standards, and the methods used to account for significant or unusual transactions;
- approve the internal audit plan, monitor and review the effectiveness and freedom from management interference of Boots' internal audit function, and to approve the appointment and removal of the head of that function;

[1] Scott Wheway's emoluments for 2005 included £340,000 being compensation for loss of Tesco short term bonus, time locked shares and share options.

- review Boots' internal controls and systems and practices for the identification and management of risk; and

- monitor compliance with Boots' policies to prevent illegal and questionable corporate conduct and to review arrangements for 'whistle blowing'.

Board Remuneration Committee

Current Members

Dr. Martin Read (chairman)
Tim Parker
Hélène Ploix

Following Completion, it is intended that the Board Remuneration Committee of Boots will comprise of Tim Parker (chairman), Hélène Ploix, Adrian Loader and Manfred Stach.

Role of the Boots Board Remuneration Committee

The main responsibilities of the Boots Board Remuneration Committee are to:

- determine and review from time to time the framework, broad policy and specific terms for the remuneration and terms and conditions of employment of the Chairman of the Boots Board and of executive Directors of Boots, including the design of targets and payments made under any bonus scheme.

- agree any compensation for loss of office of any executive Director of Boots; and

- recommend and monitor the level and structure of the remuneration of senior managers.

Boots Board Nominations Committee

Current Members

Sir Nigel Rudd (chairman)
Guy Dawson
Tim Parker
Hélène Ploix
Dr. Martin Read

Following Completion, it is intended that the Boots Board Nominations Committee of Boots will comprise of Patrick Ponsolle (chairman), Sir Nigel Rudd, Tim Parker, Manfred Stach and Stefano Pessina. The current terms of reference of the Nominations Committee, which provide that the chairman of Boots will be the chairman of the Nominations Committee, will be amended with effect from Completion such that Patrick Ponsolle may assume the chairmanship of the Boots Board Nominations Committee.

Boots and Alliance UniChem have also agreed that as at Completion, Directors nominated by Alliance UniChem will comprise a majority of the Boots Board Nominations Committee of the Enlarged Group.

Role of the Boots Board Nominations Committee

The main responsibilities of the Boots Board Nominations Committee are to:

- review regularly the structure, size and composition of the Boots Board and make recommendations to the Boots Board concerning that;

- give full consideration to succession planning for Directors;

- evaluate the balance of skills, knowledge and experience of the Boots Board;

- prepare a description of the role and capabilities required for any particular board appointment including that of the Chairman; and
- identify and nominate for the approval by the Boots Board candidates to fill board vacancies as and when they arise.

The committee also makes recommendations to the Boots Board concerning the standing for reappointment of Directors.

Boots Board Social Responsibilities Committee

Current Members

Hélène Ploix (chairman)
Paul Bateman
Tim Parker

Following Completion, it is intended that the Boots Board Social Responsibilities Committee of Boots will comprise of Hélène Ploix (chairman), Manfred Stach, Guy Dawson and Ornella Barra.

Role of the Board Social Responsibilities Committee

The main responsibility of the Boots Board Social Responsibilities Committee is to keep under review and advise the Boots Board on Boots' policies and practices in the areas of social responsibility, including those relating to health and safety, the environment, diversity and equal opportunities, race relations, employment of the disabled, charitable giving and ethical matters, and Boots' values and standards.

Boots Board Disclosure Committee

The Boots Disclosure Committee was established on 24 November 2005.

All Boots Directors of Boots are members of the Boots Disclosure Committee. The quorum is two members, one of whom must be the chairman of Boots, the chief executive, the chief financial officer or the Senior Independent Director. The chairman of the committee is the chairman of Boots, or in his absence the Senior Independent Director or failing him any member of the committee.

The committee meets as and when required and did not have cause to meet in the financial year ended 31 March 2006.

The main responsibilities of the committee are to:

- assist in the design, implementation and periodic evaluation of disclosure controls and procedures;
- monitor compliance with the company's disclosure controls and procedures;
- resolve questions about the materiality of information;
- alert the company secretary (if not attending the relevant meeting of the committee) to the existence of inside information giving rise to the need for amendments to the company's insider lists;
- generally review and advise on the scope and content of disclosure;
- review any announcements dealing with significant developments in the company's business and ensure their accuracy; and
- consider generally the requirement for announcements in the case of rumours relating to the company or in the case of a leak of inside information and in particular, the need to issue holding announcements.

The Boots Disclosure Committee is not responsible for the review of routine announcements such as director and company dealings, the appointment or removal of directors, directors' responsibility changes, trading statements or announcements relating to the interim and preliminary results or to the annual general meeting.

9. Employees

Boots Group

The average numbers of persons employed by the Boots Group, including Directors, part-time and temporary employees, for the three years ended 31 March 2006, 2005 and 2004 are set out below:

	2006 Total employees Number	2005 Total employees Number	2004 Total employees Number
BTC	**57,478**	59,538	58,742
BOL	**3,722**	4,171	3,960
BHI	**—**	3,270	3,434
BRI	**1,050**	960	900
Group and other	**735**	916	745
Continuing operations	**62,985**	68,855	67,781
BHI	**2,829**	—	—
Other discontinued operations[1]	**27**	776	1,129
Total	**65,841**	69,631	68,910

1 Other discontinued operations include the Portland Ceramics business in 2006, the laser eye correction (LASIK), dentistry, chiropody and laser hair removal businesses in 2004 and 2005.

The Boots Group employed approximately 4,052 temporary employees per month on average, over the financial year ended 31 March 2006.

Alliance UniChem Group

The average numbers of persons employed by the Alliance UniChem Group (excluding associates) including directors and part-time employees, for the three years ended 31 December 2005, 2004 and 2003 are set out below:

	2005 Total employees Number	2004 Total employees Number	2003 Total employees Number
Wholesale	**12,257**	12,233	12,313
Retail	**11,279**	10,371	9,785
Corporate	**88**	87	62
Total	**23,624**	22,691	22,160

10. Confirmations of the Directors of Boots and of the Proposed Directors

None of the Directors of Boots or of the Proposed Directors have, during the last five years:

- been convicted in relation to a fraudulent offence;
- been associated with any bankruptcy, receivership or liquidation while acting in the capacity of a member of the administrative, management or supervisory body or of senior manager of any company;
- been subject to any official public incrimination and/or sanction by statutory or regulatory authorities (including designated professional bodies); or
- been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer or from acting in the management or conduct of the affairs of any issuer.

11. Conflicts of interest

In respect of any Director of Boots or Proposed Director, there are no actual or potential conflicts of interest between any duties they have to Boots, either in respect of the Merger or otherwise, and any private interest and/or other duties they may also have. Save as disclosed in paragraph 6 of this Part XII, there are no interests, including conflicting ones, that are material to the Merger.

Save for the irrevocable undertaking described in paragraph 9 of Part XIII ("Additional Information") of this document and the supply contract described in paragraph 6 of this Part XII no Director of Boots or Proposed Director has or had during the year ended 31 March 2006, a material interest in any significant contract with Boots or with any of its subsidiaries.

None of the Directors of Boots or Proposed Directors was selected to his position, or proposed position, pursuant to any arrangement or understanding with any major customer, supplier or other person having a business connection with the Boots Group.

Save as set out below, no restrictions have been agreed by any Director of Boots on the disposal within a certain period of time of his holding in Boots securities.

Boots Directors are required to ensure that, by 2010 (or within 5 years of appointment, if later), they have a holding in Boots Shares having a value equal to their base salary (or, in the case of the Chief Executive, 1.5 times his base salary). In addition, executive Directors of Boots must invest at least one quarter of any short term bonus payment in the Boots co-investment plan until this shareholding requirement is met.

Save as disclosed below, there are no family relationships between any of the Directors of Boots or of the Proposed Directors.

Stefano Pessina and Ornella Barra, both of whom are Alliance UniChem Directors and Proposed Directors, have had a personal relationship for a number of years and consider themselves to be life partners.

12. Directorships and Partnerships

Save as set out below, neither the Directors of Boots or the Proposed Directors have either (a) held directorships of any company, other than of those companies in the Boots Group or the Alliance UniChem Group (as the case may be) which are subsidiaries, or (b) been a partner in a partnership, at any time in the five years prior to the date of this document:

Director, Proposed Director	Current directorships/partnerships	Former directorships/partnerships
Richard Baker	—	Asda Group Limited Asda Stores Limited Dixon Motors Limited IGD Services Limited Newgo 1 Limited The Institute of Grocery Distribution
Ornella Barra	Alliance UniChem Farmacêutica S.A. Alliance Santé Participations S.A.	Unifarma Distribuzione S.r.l
Guy Dawson	The BOC Group PLC Janine Roxborough Bunce Associates Limited Tricorn Corporate Member Ltd Impetus Trust	—
Steve Duncan	—	Company Chemists Association Limited M & W (Brighton) Limited G & M (Clacton) Limited
George Fairweather	Mitchells & Butlers plc	Elementis plc and certain of its subsidiaries
Adrian Loader	Deutsche Shell Holdings GmbH Holcim Limited	Certain subsidiaries of the Shell Petroleum Company Shell Canada Limited Shell International Limited

Director, Proposed Director	Current directorships/partnerships	Former directorships/partnerships
Tim Parker	AA Top Co Limited and certain of its subsidiaries Silver Shield Screens Limited Automobile Association Personal Finance Limited The AA Motoring Trust The Automobile Association Limited Dedicated Roadside Assistance Limited Yippee Ki Yay Ltd	Kwik-Fit Group Limited and certain of its subsidiaries C & J Clark International Limited C & J Clark Trustee Limited C & J Clark Limited European Home Retail plc Training for Advancement Limited FInto Limited British Footwear Association Limited CDC Group plc Legal & General Group plc
Stefano Pessina	Galenica A.G. Hedef Alliance Holding A.S. Alliance Santé Participations S.A.	—
Hélène Ploix	BNP Paribas Ferring SAS Lafarge SA Publicis Groupe SA Pechel Industries Partenaires	—
Patrick Ponsolle	Morgan Stanley International Limited Morgan Stanley SAS (France) Calyon	Eurotunnel plc and certain of its subsidiaries
Dr Martin Read	Logica CMG plc Hampshire Technology Centre Trust Limited (The) British Airways plc Shelter, the National Campaign for Homeless People Limited	Southampton Innovations Limited
Sir Nigel Rudd	Barclays Bank plc Barclays plc Coleman Investments Limited Pendragon plc Pilkington plc Rother House Finance Limited	Silburn Limited Kidde Limited Bridgewell Group Limited
Jim Smart	—	Various subsidiaries of Abbey National plc
Manfred Stach	British American Tobacco (Industrie) GmbH British American Tobacco (BAT) (Germany) BAT Industries, Hamburg Neumann Coffee Group Unilever Deutschland GmbH Unilever Austria	Unilever Bestfoods Europe
Scott Wheway	—	Tesco Japan, Tesco China and various subsidiaries thereof

PART XIII

ADDITIONAL INFORMATION

1. Boots

Boots was incorporated and registered in England and Wales on 31 May 2002 with registered number 4452715 as a public limited company. Its name was changed to Boots Group PLC on 11 October 2002.

The principal legislation under which Boots operates, and pursuant to which the New Boots Shares will be created, is the Companies Act and regulations made thereunder.

Boots is domiciled in England & Wales and its registered and head office is at 1 Thane Road West, Nottingham, NG2 3AA (telephone number +44 (0)115 9506111).

The Boots Shares are listed on the Official List of the London Stock Exchange. The ISIN of the existing Boots Shares is GB00B0P7Y252. The New Boots Shares will be in registered form and may be held in either certificated or uncertificated form.

The auditors of Boots are, and have been throughout the period covered by the financial information in this document, KPMG Audit Plc of 2 Cornwall Street, Birmingham B3 2DL.

2. Share Capital

The following table shows the authorised and issued share capital of Boots as at the latest Business Day prior to the publication of this document, and the authorised and issued share capital of Boots following completion of the Merger:

	Boots Shares		**Boots Shares following Completion**	
	Number	**Nominal amount per Boots Share**	**Number**	**Nominal amount per Boots Share**
Authorised	806,896,506	37 7/39 pence	1,288,743,534	37 7/39 pence
Issued and fully paid[1]	485,717,232	37 7/39 pence	967,564,207	37 7/39 pence

Share Capital Summary

The following table shows the changes in the issued share capital of Boots which have occurred from 31 March 2003 to 31 May 2006, being the latest practicable Business Day prior to the publication of this document:

	Issued share capital	
Boots Shares	**Number of shares**	**Nominal value £**
At 31 March 2003	815,084,397	203,771,099
Allotment of Boots Shares pursuant to exercise of executive share options	62,500	15,625
Cancellation of Boots Shares following repurchases	(39,239,300)	(9,809,825)
At 31 March 2004	775,907,597	193,976,899
Allotment of Boots Shares pursuant to exercise of executive share options	353,996	88,499
Cancellation of Boots Shares following repurchases	(45,810,000)	(11,452,500)
At 31 March 2005	730,451,593	182,612,898
Cancellation of Boots Shares following repurchases	(8,102,915)	(2,025,729)
Allotment of Boots Shares to facilitate consolidation	26	7
Pre consolidation	722,348,704	180,587,176
Consolidation adjustment	x 39/58	
At 31 March 2006	**485,717,232**	**180,587,176**

[1] The number of Boots Shares following Completion assumes that the maximum number of New Boots Shares will be issued in connection with the Merger and that no further Boots Shares will be issued between the publication of this document and the Effective Date.

Existing Shareholder Authorities

At the annual general meeting of Boots, held on 21 July 2005, an ordinary resolution was passed granting the Boots Directors, in substitution for all existing authorities, the authority to allot up to an aggregate nominal amount of £60.19 million of Boots Shares in accordance with Article 10 of Boots' Articles of Association. This authority will expire immediately following Boots' 2006 annual general meeting. The maximum number of Boots Shares the subject of this resolution represent approximately 33.3% of the issued share capital of Boots as at 31 May 2006, the latest practicable Business Day prior to the publication of this document.

At the same annual general meeting of Boots, a special resolution was passed empowering the Boots Directors to allot Boots Shares as if section 89(1) of the Companies Act did not apply to such allotment for the duration of the period expiring a year after the date of the passing of the resolution. The resolution provided that the maximum value of Boots Shares that may be allotted in this way was £9.02 million, excluding Boots Shares allotted under a non pre-emptive rights issue. The authority afforded by this resolution will expire immediately following Boots' 2006 annual general meeting. The maximum number of Boots Shares the subject of this resolution represent approximately 5.0% of the issued share capital of Boots as at 31 May 2006, the latest practicable Business Day prior to the publication of this document.

At an extraordinary general meeting of Boots held on 24 November 2005, an ordinary resolution was passed to consolidate, and thereby reduce, the number of Boots Shares in issue as permitted by Article 45 of Boots' Articles of Association. This had the effect of providing holders of Boots ordinary shares at that date with 39 consolidated shares for every 58 ordinary shares that they held. As a result, with effect from 24 February 2006, the authorised share capital of Boots was reduced from 1,200,000,000 ordinary shares of 25 pence to 806,896,506 ordinary shares of $37\frac{7}{39}$ pence, and the issued share capital from 722,348,678 ordinary shares of 25 pence to 485,717,232 ordinary shares of $37\frac{7}{39}$ pence.

Shareholder Authorities Proposed at the Boots Extraordinary General Meeting

The following ordinary resolutions relating to Boots' share capital are set out in the Circular and it is proposed that the following authorities will be proposed at the Boots Extraordinary General Meeting for the purpose of facilitating the Merger (together with the other Resolutions):

(A) subject to, and immediately upon, the Scheme becoming or being declared wholly unconditional (save for the delivery of the orders of the High Court of Justice in England and Wales sanctioning the Scheme and confirming the reduction of capital in Alliance UniChem to the Registrar of Companies in England and Wales (the "Court Sanction"), the registration of such orders by the Registrar of Companies in England and Wales ("Registration") and the Admission of the New Boots Shares) or, as the case may be, the takeover offer becoming or being declared wholly unconditional (save only for Admission of the New Boots Shares), the authorised share capital of Boots be and is hereby increased from £300.0 million to £479.1 million by the creation of 481,847,028 new ordinary shares in Boots of $37\frac{7}{39}$ pence each. This represents an increase of approximately 59.7% of Boots existing authorised share capital; and

(B) subject to, and immediately upon, the Scheme becoming or being declared wholly unconditional (save for Court Sanction, Registration and Admission of the New Boots Shares) or, as the case may be, the takeover offer becoming or being declared wholly unconditional (save only for Admission) pursuant to Section 80 of the Companies Act 1985, and in addition to any previously existing authority conferred upon the Directors under that section, the Directors be and are hereby authorised unconditionally to allot relevant securities (as defined in the said section 80) in connection with the Merger up to an aggregate nominal amount of £179,148,254, which authority shall commence on the date this resolution is passed and expire on the fifth anniversary of the passing of the resolution, save that Boots may allot relevant securities in connection with the Merger pursuant to any agreement entered into at any time prior to the fifth anniversary of the passing of the resolution (whether before or after the passing of this authority) which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such agreement as if the authority conferred hereby had not expired. The maximum number of Boots Shares the subject of this resolution represent approximately 99.2% of the issued share capital of Boots as at 31 May 2006, the latest practicable Business Day prior to the publication of this document.

General Confirmations

None of the New Boots Shares have been marketed or are being made available to the public in whole or in part in conjunction with the application for listing of the New Boots Shares. All of the New Boots Shares issued in connection with the Merger will be allotted and issued to Alliance UniChem Shareholders.

Save as disclosed in this document, during the three years immediately preceding the date of this document, there has been no issue of Boots' share capital fully or partly paid either for cash or other consideration and no such issues are proposed and no share capital of Boots or any of its subsidiaries is under option or agreed, conditionally or unconditionally, to be put under option.

Shares not Representing Capital

The Company does not have any shares not representing capital.

3. Memorandum and Articles of Association

(a) Memorandum of Association

Boots' principal objects are to carry on business as a general commercial company and to carry on any trade or business whatsoever. The objects of Boots are set out in full in Clause 4 of the memorandum of association which is available for inspection at the address specified in paragraph 1 of this Part XIII above.

(b) Articles of Association

The articles of association of Boots (the "articles") which were adopted on 31 October 2002 contain (amongst other things) provisions to the following effect:

Share Rights

Subject to applicable statutes (in this section the "Companies Acts"), any resolution passed by Boots under the Companies Acts and other shareholders' rights, shares may be issued with such rights and restrictions as Boots may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide. Redeemable shares may be issued. Subject to the articles, the Companies Acts and other shareholders' rights, unissued shares are at the disposal of the Board.

Voting Rights

Subject to any rights or restrictions attaching to any class of shares, every member present in person at a general meeting or class meeting has, upon a show of hands, one vote, and every member (excluding any member holding shares as treasury shares) present in person or by proxy has, upon a poll, one vote for every share held by him.

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

Restrictions

No member shall be entitled to vote at any general meeting or class meeting in respect of any share held by him if any call or other sum then payable by him in respect of that share remains unpaid or if a member has been served with a restriction notice after failure to provide Boots with information concerning interests in those shares required to be provided under the Companies Acts.

Dividends and Other Distributions

Boots may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Acts, the Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of Boots, in the opinion of the Board, justifies its payment. If the Board acts in good faith, it is not liable to holders of shares with preferred, or *pari passu*, rights for losses arising from the payment of interim or fixed dividends on other shares.

The Board may withhold payment of all or any part of any dividends or other moneys payable in respect of Boots' shares from a person with a 0.25% interest if such a person has been served with a restriction notice after failure to provide Boots with information concerning interests in those shares required to be provided under the Companies Acts.

Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends shall be apportioned and paid *pro rata* according to the amounts paid up on the share during any portion of the period in respect of which the dividend is paid. Except as set out above, dividends may be declared or paid in any currency.

The Board may, if authorised by an ordinary resolution of Boots, offer ordinary shareholders in respect of any dividend the right to elect to receive ordinary shares by way of scrip dividend instead of in cash.

Any dividend unclaimed after a period of 12 years from the date when it was declared or became due for payment shall be forfeited and shall revert to Boots.

Boots may stop sending any cheques or warrants in payment of dividends by post in respect of any shares or may cease to employ any other means of payment, including payment by means of a relevant system, for dividends if at least two consecutive payments have remained uncashed or are returned undelivered or that means of payment has failed. Boots may recommence sending dividend cheques, warrants or similar financial instruments or employing that means of payment if the holder requests such recommencement in writing.

On a liquidation, the liquidator may, with the sanction of a special resolution of Boots and any other sanction required by the Companies Acts, divide among the members in kind all or part of the assets of Boots (whether they shall consist of property of the same kind or not).

Variation of Rights

Subject to the Companies Acts, rights attached to any class of shares may be varied with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting (except an adjourned meeting), the quorum shall be a person or persons holding, or representing by proxy, not less than one-third in nominal value of the issued shares of the class.

The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them.

Transfer of Shares

The shares are in registered form. Any shares in Boots may be held in uncertificated form and, subject to the articles, title to uncertificated shares may be transferred by means of a relevant system. Provisions of the articles do not apply to any uncertificated shares to the extent that such provisions are inconsistent with the holding of shares in uncertificated form or with the transfer of shares by means of a relevant system.

Subject to the articles, any member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The instrument of transfer must be executed by or on behalf of the transferor and (in the case of a partly-paid share) the transferee.

The transferor of a share is deemed to remain the holder until the transferee's name is entered in the register.

The Board may, in its absolute discretion and without giving any reason, decline to register any transfer of any share which is not a fully paid share. The Board may also decline to register a transfer of a certificated share unless the instrument of transfer:-

(A) is accompanied by the relevant share certificate and such other evidence of the right to transfer as the Board may reasonably require;

(B) is in respect of only one class of share; and

(C) if to joint transferees, is in favour of not more than four such transferees.

Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the Uncertificated Securities Regulations (2001) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

The Board may decline to register a transfer of any of Boots' certificated shares by a person with a 0.25% interest if such a person has been served with a restriction notice after failure to provide Boots with information concerning interests in those shares required to be provided under the Companies Acts unless the transfer is shown to the board to be pursuant to an arm's length sale.

Alteration of Share Capital

Boots may by ordinary resolution increase, consolidate, consolidate and then divide, or (subject to the Companies Acts) sub-divide its shares or any number of them. Boots may, subject to the Companies Acts, by special resolution reduce its share capital, share premium account, capital redemption reserve or any other undistributable reserve.

General Meetings

Subject to the provisions of the Companies Acts, an annual general meeting and an extraordinary general meeting convened for the passing of a special resolution or a resolution appointing a person as a director shall be called by not less than twenty-one clear days' notice in writing. All other extraordinary meetings shall be called by not less than fourteen clear days' notice in writing.

The notice must specify the place, day and time of the meeting and the general nature of the business to be transacted.

Notices shall be given to the auditors of Boots and to all members other than those who, under the provisions of the articles or the terms of issue of the shares they hold, are not entitled to receive such notice. Notice may be via electronic communication and publication on a web site in accordance with the Companies Acts.

Each Director shall be entitled to attend and speak at any general meeting. The chairman of the meeting may invite any person to attend and speak at any general meeting where he considers that this will assist in the deliberations of the meeting.

Directors

(A) Number of directors

The directors shall be not less than three and not more than twenty in number. The Company may by ordinary resolution vary the minimum and/or maximum number of directors.

(B) Directors' shareholding qualification

A director shall not be required to hold any shares in Boots.

(C) Appointment of directors

Directors may be appointed by Boots by ordinary resolution or by the Board. A director appointed by the Board holds office only until the next following annual general meeting of Boots and is then eligible for reappointment by shareholders but is not taken into account in determining the directors or the number of directors who are to retire by rotation at that meeting.

The Board or any committee authorised by the Board may, from time to time, appoint one or more directors to hold any employment or executive office (including that of managing director) for such period (subject to the provisions of the Companies Acts) and on such terms as they may determine and may also revoke or terminate any such appointment.

(D) Age of directors

No person is disqualified from being a director by reason only of the fact that he has attained the age of 70 years or any other age nor is it necessary by reason of his age to give special notice under the Companies Acts of any resolution. If the Board convenes any general meeting at which, to the knowledge of the Board, a director who is 70 or over will be proposed for appointment or re-appointment, it must give notice of his age in any document accompanying the notice (but accidental omission does not invalidate any proceedings at that meeting) convening the meeting.

However, a director is required to vacate office at any annual general meeting after he has attained the age of 65 unless the board requests (during the preceding four months) for him to continue in office.[1]

(E) Retirement of directors

At every annual general meeting of Boots, a minimum of one-third of the directors shall retire by rotation. The directors to retire by rotation shall be those who have been longest in office since their last appointment or reappointment or, in the case of those who were appointed or re-appointed on the same day, shall be (unless they otherwise agree) determined by lot.

Subject to the provisions of the articles, Boots at the meeting at which a director retires by rotation may fill the vacated office and in default the retiring director shall, if willing to continue to act, be deemed to have been re-appointed, unless at such meeting it is expressly resolved not to fill the vacated office or unless a resolution for the re-appointment of that director has been put to the meeting and lost.

(F) Removal of directors by special resolution

Boots may by special resolution remove any director before the expiration of his period of office.

(G) Vacation of office

The office of a director shall be vacated if:

(i) he resigns or offers to resign and the Board resolve to accept such offer;

(ii) his resignation is requested by all of the other directors and all of the other directors are not less than three in number;

(iii) he is or has been suffering from mental ill health or he becomes a patient for the purposes of any statutes relating to mental health and the Board resolves that his office be vacated;

[1] One of the Merger Resolutions proposed at the Boots Extraordinary General Meeting is a resolution to delete this requirement to vacate office.

(iv) he is absent without the permission of the Board from meetings of the Board (whether or not an alternate director appointed by him attends) for six consecutive months and the Board resolves that his office is vacated;

(v) he becomes bankrupt or compounds with his creditors generally;

(vi) he is prohibited by law from being a director;

(vii) he ceases to be a director by virtue of the Companies Acts;

(viii) he is removed from office pursuant to Boots' articles; or

(ix) at any annual general meeting after he has attained the age of 65 (unless during the four months preceding that annual general meeting he is requested by the Board to continue in office).

(H) Alternate director

Any director may appoint any person to be his alternate and may, at his discretion, remove an alternate director so appointed. If the alternate director is not already a director, the appointment, unless previously approved by the Board, shall have effect only upon and subject to its being so approved.

(I) Proceedings of the Board

Subject to the provisions of the articles, the Board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it thinks fit. The quorum necessary for the transaction of the business of the Board may be fixed by the Board and, unless so fixed at any other number, shall be two. A meeting of the Board at which a quorum is present shall be competent to exercise all the powers, authorities and discretions vested in or exercisable by the Board.

The Board may appoint a director to be the chairman or a deputy chairman and may at any time remove him from that office. Questions arising at any meeting of the Board shall be determined by a majority of votes. In the case of an equality of votes the chairman of the meeting shall have a second or casting vote.

All or any of the members of the Board, or any committee, may participate in a meeting of the Board by means of a conference telephone or any communication equipment which allows all persons participating in the meeting to speak to, and hear, each other. A person so participating shall be deemed to be present at the meeting and shall be entitled to vote and to be counted in the quorum. Such a meeting is deemed to take place where the largest group participating is assembled or, if there is no such group, where the chairman is located.

The Board may delegate any of its powers, authorities and discretions (with power to sub-delegate) to any committee, consisting of such person or persons as it thinks fit, provided that the majority of persons on any committee or sub-committee must be directors. The meetings and proceedings of any committee consisting of two or more members shall be governed by the provisions contained in the articles for regulating the meetings and proceedings of the Board so far as the same are applicable and are not superseded by any regulations imposed by the Board.

(J) Remuneration of directors

Each of the directors shall be paid a fee at such rate as may from time to time be determined by the Board but the aggregate of all such fees so paid to the directors shall not exceed £500,000 per annum or such higher amount as may from time to time be decided by ordinary resolution of Boots. Any director who is appointed to any executive office shall be entitled to receive such remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board or any committee authorised by the Board may decide, either in addition to or in lieu of his remuneration as a director. In addition, any director who resides abroad for any purposes of Boots or who performs services which, in the opinion of the Board or any committee authorised by the Board go beyond the ordinary duties of a director, may be paid such extra remuneration as the Board or any committee authorised by the Board may, in its discretion, decide. Each director may be paid his reasonable travelling, hotel and incidental expenses of attending and returning from meetings of the Board or committees of the Board or of Boots or any other meeting which as a director he is entitled to attend and shall be paid all other costs and expenses properly and reasonably incurred by him in the conduct of Boots' business or in the discharge of his duties as a director.

(K) Pensions and gratuities for directors

The Board or any committee authorised by the Board may exercise the powers of Boots to provide benefits either by the payment of gratuities or pensions or by insurance or in any other manner for any director or former director or his relations, dependants or persons connected to him, but no benefits (except those provided for by the articles) may be granted to or in respect of a director or former director who has not been employed by or held an executive or other office or place of profit under Boots or any of its subsidiary undertakings or their respective predecessors in business without the approval of an ordinary resolution of Boots.

(L) Permitted interests of directors

Subject to the provisions of the Companies Acts and provided he has declared the nature of his interest to the Board as required by the Companies Acts, a director is not disqualified by his office from contracting with Boots in any manner, nor is any contract in which he is interested liable to be avoided, and any director who is so interested is not liable to account to Boots or the members for any benefit realised by the contract by reason of the director holding that office or of the fiduciary relationship thereby established.

A director may hold any other office or place of profit with Boots (except that of auditor) in conjunction with his office of director and may be paid such extra remuneration for so doing as the Board may decide, either in addition to or in lieu of any remuneration provided for by other articles. A director may also be or become a director or other officer of, or otherwise interested in, or contract with any company promoted by Boots or in which Boots may be interested and shall not be liable to account to Boots or to the members for any benefit received by him, nor shall any such contract be liable to be avoided.

A director may act by himself or his firm in a professional capacity for Boots (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a director.

(M) Restrictions on voting

No director may vote on, or be counted in the quorum in relation to, any resolution of the Board concerning his own appointment, or the settlement or variation of the terms or the termination of his own appointment, as the holder of any office or place of profit with Boots or any other company in which Boots is interested save to the extent permitted specifically in the articles.

Except as mentioned below, no director may vote on, or be counted in a quorum in relation to, any resolution of the Board in respect of any contract in which he is to his knowledge materially interested and, if he does so, his vote shall not be counted. These prohibitions do not apply to a director in relation to:-

(i) the giving to him of any guarantee, indemnity or security in respect of money lent or obligations undertaken by him for the benefit of Boots or of any of its subsidiary undertakings;

(ii) the giving of any guarantee, indemnity or security to a third party in respect of a debt or obligation of Boots or of any of its subsidiary undertakings which he has himself guaranteed, indemnified or secured in whole or in part;

(iii) the subscription or purchase by him of shares, debentures or other securities of Boots or of any of its subsidiary undertakings pursuant to any offer or invitation in which the director is or may be entitled to participate as a holder of securities;

(iv) the underwriting by him of any shares, debentures or other securities of Boots or of any of its subsidiary undertakings;

(v) any contract in which he is interested by virtue of his interest in shares or debentures or other securities of Boots or by reason of any other interest in, or through, Boots;

(vi) any contract concerning any other company (not being a company in which the director owns 1% or more) in which he is interested directly or indirectly;

(vii) any contract concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates to both the directors and employees of Boots or any of its subsidiary undertakings and does not provide in respect of any director as such any privilege or advantage not accorded to the employees to whom such scheme or fund relates;

(viii) any contract for the benefit of employees of Boots or of any of its subsidiary undertakings under which he benefits in a similar manner to the employees and which does not accord to any director as such any privilege or advantage not accorded to the relevant employees; and

(ix) any contract for the purchase or maintenance for any director of insurance against any liability.

(N) Borrowing and other powers

Subject to Boots' memorandum of association, the articles, the Companies Acts and any directions given by Boots by special resolution, the business of Boots will be managed by the Board who may exercise all the powers of Boots whether relating to the management of the business of Boots or not. In particular, the Board may exercise all the powers of Boots to borrow money and to mortgage or charge any of its undertaking, property, assets and uncalled capital or any part thereof, and to issue debentures and other securities and to give security for any debt, liability or obligation of Boots or of any third party. The Board shall procure that the aggregate principal amount (including any fixed premium payable on final repayment) that may from time to time remain undischarged of all monies borrowed or secured by Boots and/or its subsidiaries (excluding borrowings within the Boots Group) shall not, except with the sanction of Boots in general meeting exceed an amount equal to £4,000,000,000.

(O) Indemnity of directors

Subject to the provisions of the Companies Acts, Boots may indemnify any director or other officer against any liability and may purchase and maintain for any director or other officer insurance against any liability. Subject to those provisions but without prejudice to any indemnity to which the person concerned may otherwise be entitled, any director or other officer of Boots shall be indemnified out of the assets of Boots against any liability incurred by him as director or other officer of Boots in defending any proceedings (civil or criminal) in which judgment is given in his favour or he is acquitted or in connection with any application under the Companies Acts in which relief is granted to him by the court. For the purposes of this article, an auditor is not an officer of Boots.

Untraced shareholders

Boots may sell any certificated shares in Boots on behalf of the holder of, or person entitled by transmission to, the shares at the best price reasonably obtainable at the time of sale if:-

(i) the shares have been in issue for the period of 12 years preceding the date of publication of the latter of the two advertisements set out below and at least three cash dividends have become payable on the shares during such 12 year period and no cash dividend payable on the shares has been claimed or satisfied in the manner specified in the articles at any time beginning with such 12 year period and ending on the date conditions (i) to (iii) are satisfied (the "Relevant Period");

(ii) Boots has not at any time during the Relevant Period received any communication from the holder of, or person entitled by transmission to, the shares; and

(iii) Boots has published two advertisements, one in a newspaper with a national circulation and the other in a newspaper circulating in the area in which the last known postal address of the holder of, or person entitled by transmission to, the shares (or the postal address at which service of notices may be effected under the articles) is located giving notice of its intention to sell the shares and a period of three months has elapsed from the date of publication of the advertisements or of the last of the two advertisements to be published if they are published on different dates.

The net proceeds of sale shall belong to Boots and, upon their receipt, Boots shall become indebted to the former holder of, or person entitled by transmission to, the shares for an amount equal to the net proceeds.

4. Major Shareholders

In so far as it is known to Boots as at 31 May 2006 (the latest practicable Business Day prior to the publication of this document), the following persons are interested directly or indirectly in 3% or more of the issued ordinary share capital of Boots:

Name of shareholder	Percentage of issued share capital
Franklin Resources Inc	7.84%
Schroder Investment Management	7.10%
Mondrian Investment Partners	6.59%
Silchester International Investors	5.92%
Barclays Global Investors	4.81%
Deutsche Bank AG	4.09%
Legal & General Investment Management	3.68%
Lazard Freres & Co	3.00%

Save as disclosed above, the Boots Directors are not aware of any person who is interested directly or indirectly in 3% or more of the issued share capital of Boots.

As at 31 May 2006, being the latest practicable Business Day prior to the publication of this document, Boots was not aware of any person or persons who directly or indirectly, jointly or severally exercise or could exercise control over Boots nor is it aware of any arrangements the operation of which may at a subsequent date result in a change in control of Boots.

None of the major shareholders in Boots has, or will have, different voting rights attached to the shares they hold in Boots.

As at 31 May 2006, being the latest practicable Business Day prior to the publication of this document, and in so far as is known to Boots the following persons will, directly or indirectly, be interested in 3% or more of the issued share capital of Boots upon Completion and, based on the assumptions that, save as follows, the holdings of such persons in Boots and Alliance UniChem as at 31 May 2006 do not change, the maximum number of 481,846,975 New Boots Shares are issued in connection with the Merger, and no other issues of Boots or Alliance UniChem Shares occur between the date of this document and Completion:

Name of shareholder	Percentage of issued share capital
Stefano Pessina and his connected persons[1]	14.98%
Barclays Global Investors	4.92%
Franklin Templeton Group	3.93%
Schroder Investment Management	3.74%
Mondrian Investment Partners	3.31%
Legal & General Investment Management	3.21%

5. Share Option Schemes

BOOTS

Boots operates seven incentive schemes, the current status of which is set out in the table below:

Scheme	Status
Performance Plan	Active
Co-investment Plan	Active Before the Effective Date, it is currently intended that eligible employees will be invited to participate in the Boots Bonus Co-Investment Plan ("Co-Investment Plan") in respect of annual bonuses payable for 2005/06. The performance targets to which any awards granted under the Co-Investment Plan following that invitation are subject may be adjusted as appropriate by the Remuneration Committee following the Effective Date to ensure that they are appropriate to the Enlarged Group.
Individual Option Plan (Richard Baker)	Options outstanding. It is not currently intended that any further grants will be made under the scheme.
SAYE Plan	Options outstanding. It is not currently intended that any further grants will be made under the Plan.
ESOS	Options outstanding. It is not currently intended that any further grants will be made under the Plan.
LTBS	Grants outstanding. It is not currently intended that any further grants will be made under the scheme.
All Employee Share Ownership Plan ("AESOP")	Active

[1] Almost all of the 15% interest of Stefano Pessina and his connected persons will be held by Alliance Santé Participations S.A.. Stefano Pessina indirectly wholly owns Alliance Santé Participations S.A., the directors of which include Stefano Pessina and Ornella Barra.

Boots Performance Share Plan ("Performance Plan")

The following is a summary of the main provisions of the Performance Plan:

1. Administration

For Directors and former directors of Boots, the Secretary and such other persons as the Boots Board may decide, the day-to-day administration of the Performance Plan is the responsibility of the Remuneration Committee of the Boots Board which will determine the terms of the awards of such persons and exercise the discretions in relation to such persons. For other participants, these functions will be carried out by the Boots Board or by such other person as it may appoint. References in this summary to the appropriate committee should be read accordingly.

2. Eligibility

Participants are limited to employees (including executive directors) of the Boots Group chosen by the appropriate committee. An individual who is within six months of his anticipated retirement date or under notice (given or received) is not eligible.

3. Awards

Awards may take one of two forms:

- a conditional award, which is a deferred right to receive Boots Shares; or

- a phantom award, which is a promise to pay a cash bonus linked to the increase in the value of Boots Shares.

Awards may be granted either by Boots or by the trustees of an employee benefit trust. Awards may be satisfied by the issue of new Boots Shares, the transfer of Boots Shares held in treasury or the purchase of Boots Shares in the market. Awards will be personal to the participant and may not be transferred. No payment will be required for the grant of an award.

4. Timing

Awards may be granted in the six weeks following the preliminary announcement of the results of Boots for any year, when or shortly after an individual first becomes eligible to receive an award or is promoted and at other times when the appropriate committee considers that exceptional circumstances exist. However, except where the grant of an award is deferred because the recipient is in possession of price sensitive information, awards will not be granted more than four months after the start of a performance period.

5. Individual limit

The maximum number of Boots Shares over which awards may be granted under the Performance Plan to an employee in the same financial year of Boots is limited to Boots Shares having a market value not exceeding 2½ times the annual rate of the employee's pay. For these purposes, the market value of a Boots Share is the average of the closing middle-market quotations of a Boots Share for the first five dealing days following the preliminary announcement of Boots' results.

The appropriate committee may decide that an award (to the extent that it vests according to the performance targets) will be adjusted to reflect the dividends paid on the vested Boots Shares during the performance period. The adjustment will be made either by increasing the number of Boots Shares (by assuming that the dividends have been reinvested in Boots Shares) or by paying an amount equal to the dividends paid on the vested Boots Shares.

6. Performance Plan limits

The Performance Plan will be subject to the following limits:

- on any date, the aggregate nominal amount of Boots Shares allocated under the Performance Plan may not, when added to the nominal amount of Boots Shares allocated in the previous 10 years under all employee share schemes of the Boots Group, exceed 10% of the issued ordinary share capital of Boots; and
- on any date, the aggregate nominal amount of Boots Shares allocated under the Performance Plan may not, when added to the nominal amount of Boots Shares allocated in the previous 10 years under the Performance Plan and any other employee share scheme of the Boots Group established for the benefit of selected employees, exceed 5% of the issued ordinary share capital of Boots.

For these purposes, Boots Shares are allocated when rights to acquire or obtain them are granted and otherwise when they are issued or transferred. Rights which lapse, by reason of non-exercise or otherwise, cease to count. No account is taken of Boots Shares which are acquired by purchase in the market (rather than by subscription or from treasury) except where such Boots Shares were first issued or transferred to an employee trust for the purpose of satisfying a participant's rights. No account is taken of Boots Shares which an employee purchases at market value using his own funds.

No awards will be granted after 21 July 2015.

7. Performance targets

Awards are subject to a performance target which, in normal circumstances, will be measured over a period of not less than three years. The initial awards under the Performance Plan are subject to a performance target that compares Boots' total shareholder return (share price growth plus reinvested dividends) with that of an index comprised of the companies in the FTSE 350 General Retailers and the FTSE 350 Food and Drug Retailers, weighted 50/50. The award will vest in full if Boots' annualised total shareholder return performance exceeds the index by at least 10%. If the annualised return is 2% above the index return, 20% of the Boots Shares will vest and for performance between 2% and 10% the award will vest on a straight-line basis. The performance target will be measured on one occasion only; there will be no re-testing.

The appropriate committee may set different targets from year to year. The appropriate committee may also change the performance target from time to time if events happen which make it fair and reasonable to do so but not so as to make the performance target, in the opinion of the appropriate committee, materially easier or more difficult to satisfy than it was when the award was first granted. A summary of the performance targets for awards granted to the executive Directors of Boots is disclosed in the annual report each year.

8. Vesting of awards

A participant's award vests, if at all, in accordance with the terms of the performance target. In the case of conditional awards, the Boots Shares are released automatically on the release date unless the terms on which the award was granted allow the participant to elect when the Boots Shares will be released to him during such period after the release date as the appropriate committee may have specified. Where the award is a phantom award, the participant is entitled to a cash bonus of an amount equal to the vested Boots Shares although, at the option of the appropriate committee, some or all of that bonus may be satisfied by the transfer of Boots Shares of an equivalent value. The release date of an award is the later of the third anniversary of the grant of the award and the date on which the appropriate committee certifies whether or not the performance target for the award has been met.

9. Termination of employment

The following rules will apply if a participant ceases to be employed within the Boots Group:

- if a participant leaves for a permitted reason holding an unvested award, the appropriate committee will decide whether the performance target will be measured over the normal period or over a shorter period and whether the Boots Shares will, if and to the extent that the performance target is met, vest in full or pro-rata having regard to the period of employment from the date of grant. A permitted reason is death, ill-health, injury, disability, normal or (with the consent of the company) early retirement, the termination of employment by the employing company otherwise than for cause, the sale outside the Boots Group of the company or business in which the participant works and such other reasons as the appropriate committee may decide. In the case of death (either whilst employed or having left employment but whilst still holding an award), the appropriate committee may decide that the award will vest in full;

- if a participant leaves for any reason other than a permitted reason holding an unvested award, it will lapse;
- if a participant leaves for any reason other than cause and he holds a vested award, it will not lapse.

The appropriate committee may decide to treat as a member of the Boots Group for these purposes any company of which Boots, directly or indirectly, beneficially owns at least 20% of the equity share capital.

10. Change of control

In the event of a change of control, a reorganisation, an amalgamation or a voluntary winding up of Boots during the performance period, the number of vested Boots Shares will be determined by applying the performance target over the period to the date of the relevant event and adjusting that number having regard to the period from the date of grant unless the appropriate committee, having regard to such factors as it considers relevant, decides that the award should vest to a greater or lesser extent. In the event of a change of control of Boots, participants may surrender their awards in return for substitute awards over Boots Shares in the acquiring company.

11. Listing

Application will be made for admission to the Official List of new Boots Shares issued under the Performance Share Plan and for permission to trade in those Boots Shares. Boots Shares issued under the Performance Plan rank equally in all respects with existing Boots Shares except for rights attaching to Boots Shares by reference to a record date prior to the date of allotment.

12. Variation of capital etc

In the event of a variation in the share capital of Boots or in such other circumstances as the Boots Board considers appropriate, it may adjust awards in such manner as it determines to be appropriate.

13. Benefits non-pensionable

Benefits under the Performance Plan do not form part of a participant's remuneration for pension purposes.

14. Amendments

The Remuneration Committee may make such amendments to the Performance Plan either as are necessary or desirable to take account of changes to any applicable legislation. The Remuneration Committee may also make such amendments to the Performance Plan and to any award as may be necessary or desirable to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Boots Group.

Except as described above or for amendments designed to ease the administration of the Performance Plan or to correct clerical errors, no amendment which is to the advantage of employees or participants may be made without the prior approval of the company in general meeting to those provisions dealing with eligibility, individual or plan limits, the terms of awards, the adjustment of awards or the power of amendment.

Boots Bonus Co-investment Plan ("Co-investment Plan")

The following is a summary of the main provisions of the Co-investment Plan:

1. Administration

For directors and former directors of Boots, the Secretary and such other persons as the Boots Board may decide, the day-to-day administration of the Co-investment Plan is the responsibility of the Remuneration Committee of the Boots Board which will determine the terms of the awards of such persons and exercise the discretions in relation to such persons. For other participants, these functions are carried out by the Boots Board or by such other person as it may appoint. References in this summary to the appropriate committee should be read accordingly.

2. Eligibility

Participants will be limited to employees (including executive directors) of the Boots Group chosen by the appropriate committee. An individual who is within six months of his anticipated retirement date or who is under notice (given or received) will not be eligible.

3. Participation

The Co-investment Plan is operated in conjunction with such of Boots' annual bonus schemes as the appropriate committee may from time to time nominate (each a "Bonus Scheme"). The bonuses payable under such schemes are subject to the achievement of performance measures set from year to year. Performance measures are normally related to the achievement of corporate objectives but may in addition be related to personal objectives as well.

An eligible employee will be invited to apply part of his bonus under the Bonus Scheme (net of tax and other withholdings) in buying ordinary Boots Shares. The employee must agree to hold these Boots Shares (the "Deposited Boots Shares") for a period of three years in return for which he will be granted an award over such number of additional Boots Shares as have a market value (see 5 below) equal to twice the gross bonus used to buy the Deposited Boots Shares. The appropriate committee may allow the employee to buy the Deposited Boots Shares on behalf of his spouse or a trust of which his spouse or children are beneficiaries.

4. Awards

Awards may take one of two forms:

- a conditional award, which is a deferred right to receive Boots Shares; or
- a phantom award, which is a promise to pay a cash bonus linked to the increase in the value of the Boots Shares.

Awards may be granted either by Boots or by the trustees of an employee benefit trust. Awards may be satisfied by the issue of new Boots Shares, the transfer of Boots Shares held in treasury or the purchase of Boots Shares in the market. Awards will be personal to the participant and may not be transferred. No payment will be required for the grant of an award.

5. Timing

Awards may be granted within six weeks of the date on which the Co-investment Plan is approved by shareholders. Thereafter, awards may be granted in the 12 weeks following the preliminary announcement of the results of Boots for any year and at other times when the appropriate committee considers that exceptional circumstances exist.

6. Individual limit

The maximum number of Boots Shares over which awards may be granted under the Co-investment Plan to an employee in the same financial year of Boots is limited to Boots Shares having a market value not exceeding twice the employee's bonus. For these purposes, the market value of a Share is the average of the closing middle-market quotations of a Boots Share for the first five dealing days following the preliminary announcement of Boots' results.

The appropriate committee may decide that an award (to the extent that it vests according to the performance targets) will be adjusted to reflect the dividends paid on the vested Boots Shares during the performance period. The adjustment will be made either by increasing the number of Boots Shares (by assuming that the dividends have been reinvested in Boots Shares) or by paying an amount equal to the dividends paid on the vested Boots Shares.

7. Co-investment Plan limits

The Co-investment Plan will be subject to the following limits:

- on any date, the aggregate nominal amount of Boots Shares allocated under the Co-investment Plan may not, when added to the nominal amount of Boots Shares allocated in the previous 10 years under all employee share schemes of the Boots Group, exceed 10% of the issued ordinary share capital of Boots; and

- on any date, the aggregate nominal amount of Boots Shares allocated under the Co-investment Plan may not, when added to the nominal amount of Boots Shares allocated in the previous 10 years under the Co-investment Plan and any other employee share scheme of the Boots Group established for the benefit of selected employees, exceed 5% of the issued ordinary share capital of Boots.

For these purposes, Boots Shares are allocated when rights to acquire or obtain them are granted and otherwise when they are issued or transferred. Rights which lapse, by reason of non-exercise or otherwise, cease to count. No account is taken of Boots Shares which are acquired by purchase in the market (rather than by subscription or from treasury) except where such Boots Shares were first issued or transferred to an employee trust for the purpose of satisfying a participant's rights. No account is taken of Boots Shares which an employee purchases at market value using his own funds.

No awards will be granted after 21 July 2015.

8. Performance targets

Awards are subject to a performance target which, in normal circumstances, will be measured over a period of not less than three years. Initially, the appropriate committee intends that awards will be subject to a performance target that will require real growth (i.e., in excess of inflation) in Boot's earnings per share over the performance period of more than 3% per year. The award will vest in full if real growth per year is 8% or more. For performance between 3% and 8%, a proportion of the award will vest on a straight-line basis. The target will be measured on one occasion only; there will be no re-testing.

The appropriate committee may set different targets from year to year. The appropriate committee may also change the performance target from time to time if events happen which make it fair and reasonable to do so but not so as to make the performance target, in the opinion of the appropriate committee, materially easier or more difficult to satisfy than it was when the award was first granted. A summary of the performance targets for awards granted to the executive Directors of Boots is disclosed in Boots' annual report each year.

9. Vesting of awards

A participant's award vests, if at all, in accordance with the terms of the performance target. In the case of conditional awards, the Boots Shares are released automatically on the release date unless the terms on which the award was granted allow the participant to elect when the Boots Shares will be released to him during such period after the release date as the appropriate committee may have specified. Where the award is a phantom award, the participant is entitled to a cash bonus of an amount equal to the vested Boots Shares although, at the option of the appropriate committee, some or all of that bonus may be satisfied by the transfer of Boots Shares of an equivalent value. The release date is the later of the third anniversary of the grant of the award and the date on which the appropriate committee certifies whether or not the performance target for the award has been met.

If a participant does not retain his Deposited Boots Shares until the release date, his award will lapse unless and to the extent that the appropriate committee decides otherwise. A participant's Deposited Boots Shares will cease to be subject to restrictions on the release date whether or not the award vests.

10. Termination of employment

The following rules will apply if a participant ceases to be employed within the Boots Group:

- if a participant leaves for a permitted reason holding an unvested award, the appropriate committee will decide whether the performance target will be measured over the normal period or over a shorter period and whether the Boots Shares will, if and to the extent that the performance target is met, vest in full or pro-rata having regard to the period of employment from the date of grant. A permitted reason is death, ill-health, injury, disability, normal or (with the consent of Boots) early retirement, the termination of employment by the employing company otherwise than for cause, the sale outside the Boots Group of the company or business in which the participant works and such other reasons as the appropriate committee may decide. In the case of death (either whilst employed or having left employment but whilst still holding an award), the appropriate committee may decide that the award will vest in full;
- if a participant leaves for any reason other than a permitted reason holding an unvested award, it will lapse;
- if a participant leaves for any reason other than cause and he holds a vested award, it will not lapse;
- a participant's Deposited Boots Shares will cease to be subject to restrictions either when the related award vests or when it lapses.

The appropriate committee may decide to treat as a member of the Boots Group for these purposes any company of which Boots, directly or indirectly, beneficially owns at least 20% of the equity share capital.

11. Change of control

In the event of a change of control, a reorganisation, an amalgamation or a voluntary winding up of the company during the performance period, the number of vested Boots Shares will be determined by applying the performance target over the period to the date of the relevant event and adjusting that number having regard to the period from the date of grant unless the appropriate committee, having regard to such factors as it considers relevant, decides that the award should vest to a greater or lesser extent. In the event of a change of control of Boots, participants may surrender their awards in return for substitute awards over Boots Shares in the acquiring company. In these events, the participants' Deposited Boots Shares will cease to be subject to restrictions.

12. Listing

Application will be made for admission to the Official List of new Boots Shares issued under the Co-investment Plan and for permission to trade in those Boots Shares. Boots Shares issued under the Co-investment Plan will rank equally in all respects with existing Boots Shares except for rights attaching to Boots Shares by reference to a record date prior to the date of allotment.

13. Variation of capital etc

In the event of a variation in the share capital of Boots or in such other circumstances as the Boots Board considers appropriate, it may adjust awards in such manner as it determines to be appropriate.

14. Benefits non-pensionable

Benefits under the Co-investment Plan will not form part of a participant's remuneration for pension purposes.

15. Amendments

The Remuneration Committee may make such amendments to the Co-investment Plan either as are necessary or desirable to take account of changes to any applicable legislation. The Remuneration Committee may also make such amendments to the Co-investment Plan and to any award as may be necessary or desirable to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Boots Group.

Except as described above or for amendments designed to ease the administration of the Co-investment Plan or to correct clerical errors, no amendment which is to the advantage of employees or participants may be made without the prior approval of Boots in general meeting to those provisions dealing with eligibility, individual or plan limits, the terms of awards or Deposited Boots Shares, the adjustment of awards or the power of amendment.

Individual option plan — Mr R A Baker

On 18 September 2003, Mr Baker received as part of his joining arrangements a grant of options of once his salary of £625,000 amounting to 90,975 Boots Shares at a price of 687p (the average of the market price for the three days preceding the grant) on terms identical to the options granted in 2003/04 under the ESOS outlined below, exercisable between 18 September 2006 and 17 September 2013 (subject to satisfaction of the performance condition).

The performance condition is identical to that applied to grants under the ESOS, i.e. average annual growth in earning per share of at least RPI plus 3% over the performance period.

The Boots Group All-Employee Share Ownership Plan 2002 (the "AESOP")

The following is a summary of the main provisions of the AESOP:

1. Constitution

The AESOP is approved by the UK HM Revenue and Customs and is constituted by a trust deed. Save to the extent required by the terms of the trust deed, the AESOP is administered by the Boots Board.

2. Operation of the AESOP

The Boots Board may operate the AESOP, on one or more of the following bases:

- as a Free Plan;
- as a Partnership Plan; and
- as a Matching Plan.

3. Free Plan

Under the Free Plan, the employing companies provide the trustee with funds to enable it to subscribe for and/or purchase Boots Shares which are then allocated to the eligible employees. The maximum individual allocation of Boots Shares under the Free Plan ("Free Boots Shares") in any tax year is £3,000 in the approved part of the AESOP (or the limit from time to time specified pursuant to the Finance Act 2000).

Any allocation of Free Boots Shares must be made on similar terms; however, the allocation can be linked to such individual, team, divisional or corporate performance as the Boots Board may decide. The performance targets set for each unit must be broadly comparable and must not contain any features which have the effect of concentrating the awards on directors or higher-paid employees.

Free Boots Shares must be held by the trustee for such period as the Boots Board may decide being, in the case of the approved part of the AESOP, not less than three years nor more than five years. If a participant ceases to be employed by a member of the Boots Group before the end of this period, his Free Boots Shares must be withdrawn from the trust.

If the participant ceases to be employed within the minimum three year period (or within such shorter period as the Boots Board may decide) otherwise than in certain specified circumstances such as redundancy or disability, the Boots Board may provide that his Free Boots Shares will be forfeited.

4. Partnership Plan

Under the Partnership Plan, an eligible employee may enter into an agreement with Boots to allocate part of his pre-tax salary each year to subscribe for and/or purchase Boots Shares ("Partnership Boots Shares"). The maximum allocation may not exceed that from time to time permitted by the Finance Act 2000. The agreement may either provide for the Partnership Boots Shares to be bought within 30 days of the day on which the deduction is made or for the deductions to be accumulated for a period (not exceeding 12 months) and for the Partnership Boots Shares to be bought within 30 days of the end of that period. A participant may withdraw his Partnership Boots Shares at any time.

5. Matching Plan

If the Board decides to operate the Partnership Plan in any period, it may also decide to operate the Matching Plan in the same period. Under the Matching Plan, the employing companies will provide the trustee with funds to enable it to subscribe for and/or purchase Boots Shares ("Matching Boots Shares") which will then be allocated to the eligible employees who have purchased Partnership Boots Shares up to the maximum ratio from time to time permitted by the Finance Act 2000.

Matching Boots Shares must be held by the trustee during such period as the Boots Board may decide being, in the case of the approved part of the AESOP, not less than three years nor longer than five years. If a participant ceases to be employed within the Boots Group before the end of this period, his Matching Boots Shares must be withdrawn from the trust.

If the participant ceases to be employed within the minimum three year period (or within such shorter period as the Boots Board may decide), other than for a specified reason such as redundancy or disability, or withdraws his Partnership Boots Shares from the trust before the end of that period, the Boots Board may provide that his Matching Boots Shares will be forfeited.

6. Eligibility

All UK resident employees of Boots and its participating subsidiaries who have not less than 18 months' continuous service or, for Partnership or Matching Boots Shares where there is an accumulation period, six months' continuous service (or, in each case, such shorter period as the Boots Board may decide) are eligible to participate in the AESOP. Other employees may be eligible to participate in the AESOP at the Boots Board's discretion.

7. Subscription price

The subscription price of any Free or Matching Boots Shares issued is determined by the Boots Board. The subscription price for Partnership Boots Shares is the market value at the date of subscription or, if there is an accumulation period, the market value at the start of that period if lower.

8. Dividends

The Boots Board may provide that any dividends paid on the Free, Partnership or Matching Boots Shares will either be paid to the participants or re-invested in the purchase of additional Boots Shares to be held in the AESOP for a period of three years.

9. Voting rights

The Boots Board may provide that the voting rights attributable to the Boots Shares of a participant may not be exercised whilst the Boots Shares are held in the trust. Alternatively, the participant may be allowed to direct the trustees how to exercise those voting rights. The trustees will not, however, exercise the voting rights attributable to the Boots Shares held in the trust except in accordance with the participant's instructions.

10. Change of control, reorganisations etc

In the event of a general offer being made to the shareholders in or a rights or capitalisation issue of Boots, participants will be able to direct the trustee how to act on their behalf.

11. Listing

Application will be made for admission to the Official List of Boots Shares issued under the AESOP and for permission to trade in those Boots Shares. Boots Shares issued under the AESOP will rank equally in all respects with existing Boots Shares, except for rights attaching to Boots Shares by reference to a record date prior to the date of allotment.

12. Benefits non-pensionable

Benefits under the AESOP do not form part of a participant's remuneration for pension purposes.

13. Amendments

The Boots Board may make such amendments to the AESOP as are either necessary or desirable to obtain or retain the approval of the UK HM Revenue and Customs of the approved part under the Finance Act 2000 (and to make corresponding changes to the unapproved part) or to take account of changes to that Act or other applicable legislation. The Boots Board may also make such amendments to the AESOP as may be necessary or desirable to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any member of the Boots Group.

Except as described above, or for amendments designed to ease the administration of the AESOP, no amendment which is to the advantage of employees or participants may be made to those provisions dealing with eligibility, individual or AESOP limits, or the basis upon which employees may participate in the AESOP, without the prior approval of Boots in general meeting.

The Boots Group SAYE Share Option Plan 2002 (the "SAYE Plan")

The following is a summary of the main provisions of the SAYE Plan:

1. Administration

The SAYE Plan is operated and administered by the Boots Board.

2. Eligibility

All UK resident employees (including directors) who have three or more years of continuous service with Boots, or any subsidiary nominated to join in the SAYE Plan, are eligible to participate in any invitation. The Boots Board has the discretion to reduce or eliminate the period of qualifying service and/or to invite other employees of the Boots Group to participate.

3. Options

Options entitle the holder to acquire Boots Shares. Options are either options to subscribe for Boots Shares to be issued by Boots or options to purchase existing Boots Shares from an employee trust. Options are personal to the participant and may not be transferred. No payment is required for the grant of an option.

Options are granted either by Boots or by the trustee of the employee trust. In the latter case, Boots may grant the trustee a corresponding option to subscribe for Boots Shares or the trustee may purchase the necessary Boots Shares in the market.

4. Timing

Invitations to participate may normally only be issued in the period beginning 4 weeks before and ending six weeks after the announcement of the results of Boots for any period. No options will be granted after 19 December 2010.

5. Exercise price

The exercise price for options may not be less than an amount equal to 80% of the average of the middle market prices of a Boots Share, as derived from the Daily Official List, for such three consecutive dealing days as the Boots Board may select in the thirty day period (or forty day period if applications have to be scaled down) immediately preceding the date of grant.

6. Individual limit

Each eligible employee is given the opportunity to apply for an option, the total exercise price of which may not exceed the monthly contributions and bonus repayable under the Save-As-You-Earn (SAYE) contract entered into as a condition of the grant of the option. The aggregate maximum monthly contribution payable by an employee under all SAYE contracts linked to the SAYE Plan may not exceed such sum as may from time to time be permitted by the Taxes Act and approved by the Boots Board.

7. Exercise of options

Options are normally exercisable in whole or in part during the period of six months starting on the bonus date. The bonus date is the date on which the bonus under the related SAYE Plan contract is payable. In normal circumstances this will be the third, fifth or seventh anniversary of the starting date of the SAYE Plan contract and will depend upon the election made by the participant at the time of grant.

A participant may also exercise his options within six months of reaching age 60 or his contractual retirement date.

Whenever an option is exercised, it may only be exercised to the extent of the amounts then paid under the related SAYE Plan contract and any interest or bonus payable under the contract.

8. Termination of employment

If the participant dies, his personal representatives may exercise his options in the 12 months following his death or, if earlier, the bonus date. If a participant ceases to be employed within the Boots Group for a permitted reason, the participant may exercise his options in the six months following the termination of his employment. A permitted reason is injury, disability, redundancy, retirement at age 60 or at normal retirement age, the sale outside the Boots Group of the company or business in which the participant works or, in the case of any option which the participant has held for at least three years, early or late retirement. If a participant ceases to be employed for any other reason, his option will lapse.

For these purposes, a participant is not treated as ceasing to be employed within the Boots Group for so long as he remains employed by a company which is an associated company of Boots within the meaning of section 187 of the Taxes Act.

9. Change of control, reorganisation etc.

The exercise of options is also permitted in the event of a change in control, a reorganisation, an amalgamation or a voluntary winding up of Boots. In the event of a change in control of Boots, participants may surrender their options in return for substitute options over Boots Shares in the acquiring company.

10. Listing

Application will be made for admission to the Official List of Boots Shares issued under the SAYE Plan and for permission to trade in those Boots Shares. Boots Shares issued on the exercise of options will rank equally in all respects with existing Boots Shares except for rights attaching to Boots Shares by reference to a record date prior to the date of allotment. Boots will at all times keep available sufficient authorised and unissued share capital to satisfy outstanding options to subscribe for Boots Shares.

11. Variation of capital

If there is a variation in the share capital of Boots, the Boots Board may adjust options in such manner as it determines to be appropriate.

12. Benefits non-pensionable

Benefits under the SAYE Plan do not form part of a participant's remuneration for pension purposes.

13. Amendments

The Boots Board may make such amendments to the SAYE Plan either as are necessary or desirable to obtain or retain the approval of the UK HM Revenue and Customs under the Taxes Act or to take account of changes to that Act or other applicable legislation. The Boots Board may also make such amendments to the SAYE Plan and to any option as may be necessary or desirable to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any member of the Boots Group.

Except as described above or for amendments designed to ease the administration of the SAYE Plan, no amendment which is to the advantage of employees or participants may be made to those provisions dealing with eligibility, individual or SAYE Plan limits, the terms of options or the adjustment of options without the prior approval of the Boots in general meeting.

The Boots Group Executive Share Option Plan 2002 (the "ESOS")

The following is a summary of the main provisions of the ESOS:

1. Administration

Overall responsibility for the operation and administration of the ESOS is vested in the Remuneration Committee of the Boots Board (the "Committee"). The Committee determines the terms of the options granted to Directors or the secretary of Boots and exercises any discretions in relation to such persons. For other participants these functions are carried out by the Chief Executive of Boots. In this paragraph on the ESOS, the term "Appropriate Person" means, as appropriate, either the Committee or the Chief Executive of Boots (or the most senior executive Director of Boots for the time being).

2. The sub-plans

The ESOS is divided into a number of sub-plans as follows:

- a share option plan which qualifies for UK HM Revenue and Customs approval under the Taxes Act;
- a share option plan which is unapproved and which therefore allows options to be granted above the limit required by the Taxes Act;
- a share option plan which permits the grant of tax-favoured options in the USA;
- a share option plan which permits the grant of tax-favoured options in France; and
- a share appreciation rights plan under which participants are entitled to a cash payment calculated by reference to the value of Boots Shares. For the purposes of the limits on an individual's participation, such rights are treated as options.

The Committee may set up further sub-plans.

3. Eligibility

Participants in the ESOS are selected by the Appropriate Person. Participants are limited to employees and directors of any member of the Boots Group. Individuals who are directors of any member of the Boots Group may, however, only participate if they are required to devote substantially the whole of their working time to their duties to the Boots Group.

4. Options

Options entitle the holder to acquire Boots Shares. Options may either be options to subscribe for Boots Shares to be issued by Boots or options to purchase existing Boots Shares from an employee trust. Options are personal to the participant and may not be transferred. No payment is required for the grant of an option.

Options are granted either by Boots or by the trustee of the employee trust. In the latter case, Boots may grant the trustee a corresponding option to subscribe for Boots Shares or the trustee may purchase the necessary Boots Shares in the market.

5. Exercise price

The exercise price will not be less than an amount equal to the average of the market values of a Boots Share, as determined in accordance with the Taxation of Chargeable Gains Act 1992, for the three dealing days immediately preceding the date of grant or, where options are granted pursuant to an invitation, the date of the invitation.

6. Individual limit

The maximum number of Boots Shares over which an employee may be granted an option on any date, when added to those in respect of which he has been granted options in the same financial year under the ESOS and any similar scheme established by any member of the Boots Group, will be limited so that the aggregate cost of exercise does not exceed two times his annual salary. In normal circumstances, it is not expected that options will be granted in respect of more than one-half of this limit.

7. ESOS limits

Options may not be granted over more than 10,000,000 Boots Shares under that part of the ESOS which allows for the grant of tax-favoured options to participants in the USA. No options will be granted after 12 September 2011.

8. Performance targets

All options granted to Directors of Boots must, and options granted to other participants may, be subject to a performance target, the achievement of which will normally be a condition precedent to the right of exercise. The Appropriate Person may set different targets from year to year. The Appropriate Person may also change the performance target from time to time if events happen which make it fair and reasonable to do so but not so as to make the performance target, in the opinion of the Appropriate Person, materially easier or more difficult to satisfy than it was when the option was first granted. A summary of the performance targets for options granted to the executive Directors of Boots will be disclosed in Boots' annual report each year.

Except as mentioned below, the performance target will be measured over a period of not less than three years beginning either with the date of grant or with the start of the financial year in which the option is granted.

9. Exercise of options

Options are normally exercisable in whole or in part not earlier than three years and not later than 10 years after grant and only if and to the extent that they have vested (that is, the performance target (if any) has been met).

10. Termination of employment

If a participant ceases to be employed within the Boots Group, he will forfeit his option unless he leaves for a permitted reason or unless the Appropriate Person decides otherwise. A permitted reason is:

- death, disability, redundancy, early retirement at the request of the Boots or normal or late retirement; or
- the transfer outside the Boots Group of the company by which the participant is employed or the business in which he works.

Where any option is not forfeited, it may only be exercised if the performance target (if any) has been or is met. If the performance target has not already been met, it will be measured at the 31 March on which the relevant event happens or the 31 March next following the relevant event. If the option has been held for less than three years, the performance target will be measured over the shorter period. In each of these cases, the option may be exercised in the period of six months commencing, in the case where the performance target has already been met, on the date of the relevant event, and, in the case where the performance target is met on the 31 March next following the relevant event, that 31 March. The Appropriate Person may, except in respect of options granted within two years of termination of employment to persons retiring at normal or anticipated retirement date, extend the period during which the option may be exercised for up to 42 months after the relevant event.

If the participant is transferred or seconded to another company in which the Boots Group has a shareholding, the Appropriate Person may, however, decide that for these purposes (other than for options granted under the UK HM Revenue and Customs approved part of the ESOS) that company shall be treated as a member of the Boots Group.

11. Change of control, reorganisation etc.

The exercise of options will be permitted in the event of a change in control, a reorganisation, an amalgamation or a voluntary winding up of the Boots. Options (other than those granted under the UK HM Revenue and Customs approved part of the ESOS) may not, however, be exercised unless the performance target has been met or the Committee decides otherwise. In the event of a change of control of the Boots, participants may surrender their options in return for substitute options over Boots Shares in the acquiring company.

12. Listing

Application will be made for admission to the Official List of Boots Shares issued under the ESOS and for permission to trade in those Boots Shares. Boots Shares issued on the exercise of options will rank equally in all respects with existing Boots Shares except for rights attaching to Boots Shares by reference to a record date prior to the date of allotment.

13. Variation of capital

In the event of a variation in the share capital of Boots, or in such other circumstances as the Committee considers appropriate, the Committee may adjust options in such manner as it determines to be appropriate.

14. Benefits non-pensionable

Benefits under the ESOS will not form part of a participant's remuneration for pension purposes.

15. Amendments

The Committee may make such amendments to the ESOS either as are necessary or desirable to obtain or retain the approval of the UK HM Revenue and Customs under the Taxes Act, or to take account of changes to that Act or other applicable legislation. The Committee may also make such amendments to the ESOS and to any option as may be necessary or desirable to obtain or maintain favourable tax, exchange control, or regulatory treatment for participants or for any member of the Boots Group.

Except as described above or for amendments designed to ease the administration of the ESOS or to correct clerical errors, no amendment which is to the advantage of employees or participants may be made to those provisions dealing with eligibility, individual or ESOS limits, the terms of options or the adjustment of options without the prior approval of Boots in general meeting.

The Boots Group Long-Term Bonus Plan 2002 (the "LTBS")

The following is a summary of the main provisions of the LTBS:

1. Eligibility

Participants in the LTBS are selected by the Appropriate Person. Participants will be limited to employees (including those who are on temporary secondment or transfer) and directors of any member of the Boots Group. An employee will not, however, be eligible to participate in a performance period which will end more than 12 months after his normal retirement date.

2. Performance periods

The LTBS operates over a three year performance period with a new period starting each year. The decision whether or not to operate the LTBS in respect of any performance period will be made by the Committee.

3. Awards

Each award (a "Bonus Award") entitles the participant, upon satisfaction of the performance targets, to receive an amount equal to the market value at the end of the performance period of a specified number of Boots Shares. Bonus Awards are personal to the participant and may not be transferred. No payment is required for the grant of a Bonus Award.

4. Timing

Bonus Awards are normally granted before or soon after the start of the performance period. Bonus Awards may be granted at other times, however, to new employees or to newly promoted employees. No further Bonus Awards may be granted after 11 August 2009.

5. Individual limit

The maximum value of a Bonus Award at the time of grant may not exceed such number of Boots Shares as have a market value equal to 125%, (or such lower percentage as the Appropriate Person may decide) of the participant's base salary at the time of grant. For the purposes of this limit, the value of a Boots Share will be taken as the average of the market values of a Boots Share, as derived from the Daily Official List, over the three months preceding the start of the performance period or over such other period as the Appropriate Person may decide.

6. Performance targets

Each Bonus Award is subject to one or more performance targets. Unless the Appropriate Person decides otherwise, all Bonus Awards will be subject to a performance target which will compare the total shareholder return (share price growth plus re-invested dividends) achieved by Boots over the performance period with that achieved by a comparator group of companies. Currently comparative shareholder return is the sole criterion as regards executive directors and other participants.

The total shareholder return target measures Boots' performance against ten comparator companies. The Bonus Award (or the relevant part of the Bonus Award) vests in full if Boots is ranked in the first position in that league table. At median position, 24%. of the Bonus Award vests, and there is a scale of vesting between those positions. No part of the Bonus Award vests if Boots is ranked below the median position.

The Appropriate Person has the right to alter the performance targets in such circumstances as it considers appropriate. The Appropriate Person has the right to set different performance targets in each performance period.

7. Earned amounts

At the end of the performance period, the Appropriate Person will decide how much, if any, of the Bonus Award has been earned having regard to the performance targets. In such circumstances as it considers appropriate, the Appropriate Person may increase or decrease the amount earned notwithstanding the attainment or non-attainment of the performance targets.

Other than in exceptional circumstances, the earned part of the Bonus Award will be paid out as a right to acquire Boots Shares for a nominal consideration (a "Share Award") up to a maximum number of shares stated in the Bonus Award. Share Awards are personal to the participant and may not be transferred.

8. Exercise of Share Awards

Share Awards are granted either by Boots or by the trustee of an employee trust. All Share Awards are, however, satisfied by the transfer of Boots Shares from an employee trust which will acquire the necessary Boots Shares by buying in the market.

Share Awards may be exercised during such period as the Appropriate Person may specify being not more than 10 years after the date of grant.

9. Termination of employment

If a participant ceases to be employed within the Boots Group before the end of the performance period by reason of death, disability, redundancy, early retirement at the request of Boots, or normal retirement, all of his Bonus Awards will lapse except those attributable to performance periods ending on the 31 March (if relevant) on which the relevant event happens and the next following 31 March, if a participant ceases to be employed with the Boots Group for any other reason, his Bonus Awards will lapse unless and to the extent that the Appropriate Person decides otherwise.

If a participant ceases to be employed within the Boots Group, his Share Award will lapse unless he ceases to be employed for a permitted reason or the Appropriate Person decides otherwise, in which case he may exercise his Share Award in the 12 months after the date of cessation or, if later, the date of grant of the Share Award. A permitted reason is:

- death, disability, redundancy or normal, early or late retirement; or
- the transfer outside the Boots Group of the company by which the participant is employed or the business in which he works.

10. Change of control, reorganisation etc.

Special rules apply in the event of a change of control, a reorganisation, a court sanctioned compromise or arrangement, or a winding-up of Boots. Unless and to the extent that the Committee decides otherwise, all Share Awards may be exercised but all Bonus Awards will lapse.

11. Variation of capital

If there is a variation in the share capital of Boots, or in such other circumstances as the Committee considers appropriate, the Committee may make such adjustments to Bonus and Share Awards as it determines to be appropriate.

12. Benefits non-pensionable

Benefits under the LTBS will not form part of a participant's remuneration for pension purposes.

13. Amendments

The Committee may make such amendments to the LTBS either as are necessary or desirable to take account of changes to applicable legislation. The Committee may also make such amendments to the LTBS and to any award as may be necessary or desirable to obtain or maintain favourable tax, exchange control, or regulatory treatment for participants or for any member of the Boots Group.

Except as described above and for minor amendments designed to ease the administration of the LTBS, no amendment which is to the advantage of employees or participants may be made to those provisions dealing with eligibility, individual limit, the terms of awards, or the adjustment of awards without the prior approval of Boots in general meeting.

Additional schemes

In addition to the above schemes, the Boots Board has authority to establish further schemes based on the AESOP, the SAYE Plan, the ESOS and the LTBS modified to take account of local tax, exchange control or securities laws provided that any Boots Shares made available under such further schemes are treated as counting against the limits on individual and overall participation in the scheme from which such further schemes derive.

Limits on the number of Boots Shares that can be issued under the Share Schemes

The employee share schemes of the Boots Group are subject to the following limits on the overall number of Boots Shares which may be subscribed:

- on any date, the aggregate nominal amount of new Boots Shares which may be allocated under any employee share scheme of the Boots Group may not, when added to the nominal amount of new Boots Shares allocated in the previous 10 years under all employee share schemes of the Boots Group, exceed 10%, of the equity share capital of Boots; and
- on any date, the aggregate nominal amount of new Boots Shares which may be allocated under the ESOS, the Performance Plan, the Co-investment Plan or any other discretionary employee share scheme of the Boots Group established for the benefit of selected employees (the "Executive Plans") may not, when added to the nominal amount of new Boots Shares allocated in the previous 10 years under all such schemes, exceed 5%, of the equity share capital of Boots.

For these purposes:

(i) Boots Shares are allocated when rights to acquire or obtain them are granted and otherwise when they are issued;

(ii) rights which lapse, by reason of non-exercise or otherwise, cease to count;

(iii) no account is taken of Boots Shares which are acquired by purchase rather than by subscription, except where such Boots Shares were first issued to an employee trust for the purpose of satisfying a participant's rights;

(iv) no account is taken of Boots Shares which an employee purchases at market value using his own funds;

(v) Boots Shares issued by Boots and options granted over such Boots Shares under employee schemes established by Boots will count against the above limits; and

(vi) to the extent that Boots buys back any of its Boots Shares within 12 months of the issue of Boots Shares under the Executive Plans, then the number of Boots Shares bought back will be deducted from the number of Boots Shares which would otherwise fall to be counted against the limits in the Executive Plans.

Boots Group Employee Trusts

The employee share schemes of the Boots Group may, as described above, be operated in conjunction with one or more employee trusts. Each such trust will be a general discretionary trust whose beneficiaries will include employees of the Boots Group and their dependants.

The principal purpose of such a trust will be to encourage and facilitate the holding of Boots Shares by or for the benefit of employees of the or a member of the Boots Group. This will be achieved by the trust acquiring Boots Shares and distributing them in accordance with the employee share schemes of the Boots Group.

A trust may acquire Boots Shares by purchase or, subject to the limits mentioned above, by subscription at a price not less than the nominal value of a Share. The funds for the acquisition of Boots Shares may be provided by loans and/or contributions by Boots and other members of the Boots Group. Alternatively, funds may be obtained from third party sources and guaranteed by Boots and/or other Group companies.

No Boots Shares will be acquired by a trust if to do so would cause the trust to control more than 5%, of the Boots Shares. For this purpose, any Boots Shares which a trust holds as nominee for another person shall be ignored.

Boots ESOP Trust

As at 31 May 2006, the Boots ESOP Trust held 589,619 Boots Shares. These Boots Shares were purchased to satisfy share awards under the LTBS.

Boots QUEST

As at 31 May 2006, the Boots (Quest) Trustee Limited held 5,374,119 Boots Shares. The Boots Shares were purchased to satisfy the exercise of options under the SAYE Plan.

Boots All Employee Share Ownership Plan Trust

As at 31 May 2006, Boots Share Plan Trustee Limited as trustee of the Boots All Employee Share Ownership Plan held 1,666,022 Boots Shares conditionally awarded to employees, 1,412,559 Boots Shares unconditionally on behalf of participants and 377,352 unappropriated Boots Shares.

ALLIANCE UNICHEM

Introduction

Alliance UniChem operates four employee share schemes: the Alliance UniChem 1997 Share Option Scheme, the Alliance UniChem Share Incentive Plan, the Alliance UniChem Savings Related Share Option Scheme 1990 and the Ian Meakins Share Incentive Plan.

Alliance UniChem has also established the UniChem 1992 Employee Trust ("the Trust"). Alliance UniChem Shares held by the trustee of the Trust will be applied to meet option exercises before the Scheme Record Time. New Alliance UniChem Shares will be issued in respect of exercises of options over Alliance UniChem Shares after the Scheme Record Time as the trustee of the Trust, as an Alliance UniChem Shareholder, will participate in the Scheme and will not be able to transfer any Alliance UniChem Shares that it holds after the Scheme Record Time. Accordingly, participants under the Alliance UniChem Share Schemes who acquire Alliance UniChem Shares from the Trust before the Scheme Record Time will participate in the Scheme on the same basis as other Alliance UniChem Shareholders. Any Alliance UniChem Shares issued to participants after the Scheme Record Time will not be bound by the Scheme but will be automatically acquired by Boots on the same terms as under the Scheme pursuant to an amendment to Alliance UniChem's Articles of Association to be proposed at the Alliance UniChem Extraordinary General Meeting. Participants in the 1990 Scheme who exchange their options over Alliance UniChem Shares for options over New Boots Shares and any continuing optionholders under the 1997 Scheme may receive New Boots Shares from the Trust or have New Boots Shares issued to them by Boots when they exercise their options after the Scheme becomes effective.

Following Completion, there will be no further grants under the Alliance UniChem Share Schemes. The effect of the Scheme on each of the Alliance UniChem Share Schemes is set out below.

The Alliance UniChem 1997 Share Option Scheme (the "1997 Scheme")

As at 31 May 2006 (being the latest practicable Business Day before posting of this document), options over 4,850,512 Alliance UniChem Shares were outstanding under the 1997 Scheme.

The outstanding options are currently subject to performance conditions. However, options under the 1997 Scheme can be exercised free of these performance conditions from the date the Court sanctions the Scheme.

Outstanding UK HM Revenue & Customs approved options will lapse six months after the date the Court sanctions the Scheme, but cannot be exercised after the Effective Date. Outstanding unapproved options (other than certain options held by optionholders resident in France) will lapse on the Effective Date.

The terms of options held for less than four years by optionholders resident in France will be amended so that they will not lapse on the Effective Date but will remain outstanding and exercisable until they lapse at the end of the six month period starting on the fourth anniversary of the date of grant of the options. This will allow those options to continue to qualify from beneficial tax treatment in France.

The 1997 Scheme is divided into a number of sub-schemes, the International sub-scheme (which allows unapproved options to be granted to UK and International employees), the UK sub-scheme (which qualifies for the UK HM Revenue & Customs approval under the Income Tax (Earnings and Pensions) Act 2003) and the French sub-scheme (which permits the grant of tax-favoured options in France). Except as otherwise mentioned, the rules of the 1997 Scheme apply equally to the International, UK and French sub-schemes.

1. Eligibility

Participation in the 1997 Scheme is limited to employees and salaried directors of the Alliance UniChem Group.

2. Exercise of options

Options can normally only be exercised between the third and tenth anniversaries of the date of grant and normally only if the applicable performance conditions have been met. Options granted before 7 March 2003 must be exercised between the third and seventh anniversaries of the date of grant (again subject to performance targets being met). Options not exercised before the seventh or tenth anniversaries of the date of grant, as applicable, will lapse.

3. Exercise price

The exercise price of each option is not less than either the middle market quotation of an Alliance UniChem Share on the last day before its date of grant or an amount equal to the arithmetic average of the middle market quotations of an Alliance UniChem Share for the three consecutive days before its date of grant.

4. Performance targets

While all options are subject to objective performance targets, the attainment of which is normally a condition precedent to the right of exercise, the performance targets will cease to apply following the change of control of Alliance UniChem as a result of the Merger.

5. Termination of employment

If a participant's employment is terminated as a result of:

(i) his death, ill health, injury or disability, redundancy or early retirement with the consent of his employer; or

(ii) the company by which the participant is employed or the business in which he works being sold outside the Alliance UniChem Group,

the participant (or his personal representative(s), as appropriate) will be able to exercise his option within 12 months of cessation, following which it will lapse. This exercise period can be extended at the discretion of the grantor (following consultation with the Remuneration Committee of the Board of Alliance UniChem (the "Committee") if the grantor is the Trustee of the Alliance UniChem 1992 Employee Trust ("the Trustee")). If extended the exercise period must not end later than 12 months after the earliest date upon which the participant may exercise all of his options without being chargeable to income tax, or if there is no such date, the third anniversary of the last date on which the participant exercised his options (other than those granted under the 1997 Scheme or a savings-related share option scheme) without being chargeable to tax. Participants may also be permitted to exercise options, at the discretion of the grantor (following consultation with the Committee if the grantor is the Trustee) in the 30 days immediately before the date on which it is believed he will cease to be employed within the Alliance UniChem Group. This does not apply to options granted under the UK sub-scheme.

Participants who are to remain as employees within the Alliance UniChem Group but are to be transferred to work in another country and will, as a result, suffer a tax disadvantage upon the exercise of their options, may be permitted to exercise their options in the period starting three months before and ending three months after the transfer takes place. This does not apply to options granted under the UK sub-scheme.

If a participant's employment is transferred to an associated company of Alliance UniChem, his option(s) will lapse three months after the transfer unless the grantor (following consultation with the Committee if the grantor is the Trustee) decides otherwise.

6. Change in control and liquidation

Options may be exercised in the event of a change in control, a reconstruction or an amalgamation of Alliance UniChem. Options exercised in the event of a change in control must be exercised within six months of the change in control, following which they will lapse. Options exercised following a reconstruction or an amalgamation must be exercised within the period beginning with the Court sanction of the reconstruction or amalgamation and ending with the reconstruction or amalgamation becoming effective.

If a person becomes bound or entitled to give notice to acquire shares in Alliance UniChem under sections 428 to 430F of the Companies Act, participants will be able to exercise their options at any time during the period that person remains so bound or entitled, or, if later, within four months after the change in control (or if a person who has control of Alliance UniChem makes an offer to acquire all of its issued share capital, within four months of the date of the offer). Options may also be exercised within 60 days after a resolution for the voluntary winding-up of Alliance UniChem.

Options granted under the International sub-scheme may be satisfied by way of cash paid to participants, with their agreement, when options are exercised. The cash payable would be equal to the amount by which the market value of Alliance UniChem Shares in respect of which the option is exercised exceeds the aggregate price payable to acquire them.

7. Variation of capital

If there is a variation in the share capital of Alliance UniChem, or a demerger of Alliance UniChem or upon the happening of any other event, the grantor (following consultation with the Committee if the grantor is the Trustee) may adjust options in the manner it considers appropriate.

8. The UK sub-scheme

Options under the UK sub-scheme may be exchanged for equivalent options in the acquiring company, if permitted by the acquiring company, within six months following a change in control or following sanction of a scheme of arrangement under section 425 of the Companies Act 1985 by the Court.

9. The French sub-scheme

There are a number of provisions specific to options granted under the French sub-scheme:

(a) The options may be exercised in the period beginning on the fourth anniversary of the date of grant and ending on the day before the tenth anniversary of the date of grant, unless the Committee specifies a different exercise period at the time of grant.

(b) The exercise price is not less than the amount equal to 95% of the arithmetic average of the middle market quotations of an Alliance UniChem Share for the 20 dealing days immediately before the date of grant.

(c) If a participant dies, his options must be exercised (if at all) within six months after his death.

The Alliance UniChem Share Incentive Plan (the "SIP")

As at 31 May 2006 (being the latest practicable Business Day before the posting of this document) awards over 38,106 Alliance UniChem Shares were outstanding under the SIP. Allocations (non-binding statements of intention to make an award under the SIP) were also outstanding over 380,582 Alliance UniChem Shares. Only Alliance UniChem Directors participate in the SIP.

Allocations outstanding under the SIP will vest subject to the attainment of the performance targets on the date the Court sanctions the Scheme. Awards outstanding under the SIP are already exercisable and will remain exercisable for three months following the date the Court sanctions the Scheme and will then lapse. George Fairweather, the only Alliance UniChem Director who holds awards under the SIP (details of which are set out at paragraph 4(c)(iv) of Part 8 (*Additional Information*) of the Scheme Document) will exercise options granted pursuant to those awards immediately following the sanction of the Scheme by the Court and will participate in the Scheme on the same basis as other Alliance UniChem Shareholders.

Alliance UniChem's remuneration committee has determined that all of the applicable performance targets would be met in full at the time of the Merger, and so the allocations will vest in full. Accordingly, following the sanction of the Scheme by the Court, the Alliance UniChem Directors who hold allocations under the SIP will receive from the Trust all of the Alliance UniChem Shares subject to their respective allocations. Sufficient of the Alliance UniChem Shares to which each Alliance UniChem Director is entitled will be sold on their behalf to meet any tax liability that arises on vesting. The remainder of the Alliance UniChem Shares acquired by each Alliance UniChem Director will be subject to the Scheme. Each Alliance UniChem Director who participates in the SIP has agreed to continue to hold the New Boots Shares ultimately acquired in respect of the Alliance UniChem Shares received under the SIP until the earlier of the date he would have been able to realise the value of his allocation under the SIP if the Merger had not occurred or the date he ceases to be employed by the Enlarged Group.

The Alliance UniChem Savings Related Share Option Scheme 1990 (the "1990 Scheme")

As at 31 May 2006 (being the latest practicable Business Day before the posting of this document), options over 2,974,427 Alliance UniChem Shares were outstanding under the 1990 Scheme.

Optionholders will be entitled to exercise their options within the period of six months from the date the Court sanctions the Scheme or, if earlier, within six months of the next bonus date following the posting of this document on which optionholders will be entitled to a bonus under their respective savings contracts. Options can be exercised to the extent possible with the amount repaid under their related savings contract.

Boots will make a proposal to optionholders under the 1990 Scheme inviting them to exchange their options for equivalent options over New Boots Shares. Options can be exchanged within a period of six months from the date the Court sanctions the Scheme. Options not exchanged or exercised within this six month period will lapse. Options which are exchanged will be exercisable in accordance with the rules of the 1990 Scheme.

1. Eligibility

All UK resident employees (including directors who work for at least twenty five hours per week) who devote substantially the whole of their working time to the Alliance UniChem Group and have been in continuous service of a company within the Alliance UniChem Group for a period as decided by the Alliance UniChem Board, but not exceeding five years, are eligible to participate in the 1990 Scheme. The Alliance UniChem Board can invite any other employees to participate in the 1990 Scheme.

2. Contractual savings scheme

Employees who participate in the 1990 Scheme have entered into a contract under a certified contractual savings scheme under which they make monthly contributions of between £5 and £250.

3. Options

Options entitle the holder to acquire the whole number of Alliance UniChem Shares obtained by dividing the amount repayable to a participant under his relevant savings contract (subject to its completion) on the expected bonus date by the exercise price.

The exercise price of an option is not less than 80% of the average middle market quotation of an Alliance UniChem Share on the three dealing days preceding the dealing day before that on which the Alliance UniChem Board made the invitation to apply for the option.

Options are personal to the participant and may not be transferred, assigned or charged.

4. Exercise of options

Options may normally only be exercised within a period of six months starting on the date on which the bonus under the related savings contract is payable. Options can only be exercised in respect of that number of Alliance UniChem Shares that can be acquired with the proceeds of the related savings contract at the date of exercise. Options may be exercised in whole or in part. If an option is exercised in part, it will lapse in respect of the balance.

5. Termination of employment

If a participant dies, his personal representatives may exercise his option(s) in the 12 month period following his death, or, if earlier, the bonus date applicable to the related savings contract(s).

If a participant ceases to be employed within the Alliance UniChem Group by reason of:

(a) injury, disability, or redundancy;

(b) a business or part of a business being transferred to a person who is neither an associated company of Alliance UniChem nor a company of which Alliance UniChem has control; or

(c) retirement either on reaching pensionable age, as defined in section 181 of the Pensions Schemes Act 1993, or contractual retirement age;

his option must be exercised within six months following the termination of his employment.

A participant who ceases to be employed after the expiry of a period of three years from the date of grant of his option as a result of early retirement with the consent of Alliance UniChem will be able to exercise his option within six months of the date of the termination of his employment or, if earlier, within six months after the bonus date. If a participant continues to be employed after he reaches pensionable age, he will be entitled to exercise his option within six months after the date he reaches pensionable age or, if earlier, within six months after the bonus date.

For these purposes, a participant is not treated as ceasing to be an employee within the Alliance UniChem Group while he remains employed by a company which is either an associated company of Alliance UniChem within the meaning of section 187 of the Income and Corporation Taxes Act 1988 or a company under the control of Alliance UniChem.

6. Changes in Control

Options may be exercised within six months of a change in control, a reconstruction or an amalgamation of Alliance UniChem, following which they lapse. If a person becomes bound or entitled to give notice to acquire shares under sections 428 to 430F of the Companies Act 1985, participants will be able to exercise their options at any time that person remains so bound or entitled, or, if earlier, within six months after the bonus date, following which they lapse. Participants can also exercise their options within six months of a voluntary winding-up of Alliance UniChem, following which they lapse.

In the event of a change in control, a reconstruction or an amalgamation of Alliance UniChem or if a person becomes bound or entitled to give notice to acquire shares in Alliance UniChem under sections 428 to 430F of the Companies Act 1985, participants may exchange their options in return for equivalent options over shares in the acquiring company or a company associated with the acquiring company.

7. Variation of Capital

In the event of any variation in the capital of Alliance UniChem, options may be adjusted, with the prior approval of the UK HM Revenue and Customs, in the manner the auditors confirm to be in their opinion fair and reasonable. The minimum exercise price payable on the exercise of an option must, however, be a sum equal to the nominal value of a share in Alliance UniChem.

8. Benefits non-pensionable

Benefits under the 1990 Scheme do not form part of a participant's remuneration for pension purposes.

If a participant ceases to be an eligible employee, he shall not be entitled to any compensation for loss of a right or benefit or a prospective right or benefit under the 1990 Scheme.

9. Amendments

The 1990 Scheme may be amended by the Board, provided that:

(a) no amendment may be made which prejudices materially the rights of participants in relation to their options unless the participants agreement has been obtained;

(b) no amendment may be made without prior approval of the UK HM Revenue and Customs; and

(c) no amendment can be made to the advantage of participants without the prior sanction of an ordinary resolution of Alliance UniChem in General Meeting.

The Board of Alliance UniChem may also amend the 1990 Scheme by board resolution and without other formality in order to maintain the approval of the 1990 Scheme by the UK HM Revenue and Customs or to maintain favourable tax, exchange control or regulatory treatment for participants or for any member of the Alliance UniChem Group.

Participants under the Alliance UniChem Share Schemes who are issued Alliance UniChem Shares before the Voting Record Time will participate in the Scheme on the same basis as other Alliance UniChem Shareholders on the Alliance UniChem register at that time. If participants are issued Alliance UniChem Shares under the Alliance UniChem Share Schemes after the Voting Record Time but prior to 6.00 p.m. on the day before confirmation by the Court of the Reduction of Capital, such participants will be bound by the Scheme through a new article proposed to be included in Alliance UniChem's Articles of Association at the Alliance UniChem Extraordinary General Meeting. If participants are issued Alliance UniChem Shares after 6.00 p.m. on the day before confirmation by the Court of the Reduction of Capital, such Alliance UniChem Shares will not be bound by the Scheme but will be automatically acquired by Boots on the same terms as under the Scheme pursuant to another proposed amendment to Alliance UniChem's Articles of Association to be proposed at the Alliance UniChem Extraordinary General Meeting.

Ian Meakins Share Incentive Plan

Mr Meakins holds an option over 119,946 Alliance UniChem Shares. This option can be exercised at any time up until 1 December 2014, when it will lapse.

Mr Meakins is also entitled to receive an award of up to a maximum of 153,571 Alliance UniChem Shares in March 2008, subject to satisfaction of performance conditions and certain additional requirements. To qualify for this further award, Mr Meakins must (a) not sell, dispose of or otherwise alienate the Alliance UniChem Shares comprised in his option at any time before the end of Alliance UniChem's 2007 financial year; (b) retain a personal investment of 33,625 Alliance UniChem Shares; and (c) remain employed by Alliance UniChem until the end of Alliance UniChem's 2007 financial year. The performance condition relating to this award is based on Alliance UniChem's Total Shareholder Return (TSR) when compared to the companies in the FTSE 100 for the period covering Alliance UniChem's 2005, 2006 and 2007 financial years. Alliance UniChem may agree with Mr Meakins that he will receive a cash payment equal to the value of these entitlements, after taking into account the extent to which the performance conditions have been satisfied as at the date of the Merger, and to cancel them at that time.

6. Outstanding Options and Awards under Share Schemes

Boots Group

Save as disclosed below, as at 31 May 2006, the latest practicable Business Day prior to the publication of the document none of the share capital of any member of the Boots Group is under option or agreed conditionally or unconditionally to be put under option:

Share plan/scheme	Date of grant/award	No. of Boots Shares	Exercise price pence	Normal exercise period
The Boots Executive Share Option Plan 2001	12.09.01	81,286	630	12.09.04 – 11.09.11[1]
	03.12.01	286,057	594	03.12.04 – 02.12.11[1]
	18.06.02	399,970	635	18.06.05 – 17.06.12[1]
The Boots Group Executive Share Option Plan 2002	29.11.02	42,315	576	29.11.05 – 28.11.12[1]
	23.06.03	580,122	606	23.06.05 – 22.06.13[1]
Richard Baker Individual Plan	18.09.03	272,925	687	18.09.06 – 17.09.13[1]
The Boots Executive Share Option Plan 2002	04.12.03	24,858	710	04.12.06 – 03.12.13[1]
	14.06.04	795,050	647	14.06.07 – 13.06.14[1]
	08.11.04	8,995	667	08.11.07 – 07.11.14[1]
The Boots 1990 SAYE Share Scheme	15.07.98	96[2]	808	01.09.05 – 28.02.06
	13.07.99	434,593[2]	624	01.10.06 – 31.03.07

[1] Subject to satisfaction of performance condition.

[2] It is currently intended that the Boots Shares the subject of these options will, on exercise of the relevant options, be transferred to existing participants from the Boots employee trusts.

Alliance UniChem Group

Save as disclosed below, none of the share capital of any member of the Alliance UniChem is under option or award or agreed conditionally or unconditionally to be put under option or award.

Details of outstanding options over Alliance UniChem Shares as at 31 May 2006, the latest practicable Business Day prior to the publication of this document were:

Share plan/scheme	Year of grant	No. of Alliance UniChem Shares	Exercise price pence	Normal exercise period
1990 Scheme	1999	40,024	384.00	01.07.06 – 31.12.06
	2000	98,854	291.00	03.07.07 – 02.01.08
	2001	157,459	463.00	01.07.06 – 31.12.06
	2001	31,649	463.00	01.07.08 – 31.12.08
	2002	791	480.00	01.07.05 – 31.12.05
	2002	163,247	480.00	01.07.07 – 31.12.07
	2002	42,096	480.00	01.07.09 – 31.12.09
	2003	663,650	337.00	01.07.06 – 31.12.06
	2003	431,321	337.00	01.07.08 – 31.12.08
	2003	62,765	337.00	01.07.10 – 31.12.10
	2004	398,163	440.00	01.07.07 – 31.12.07
	2004	215,239	440.00	01.07.09 – 31.12.09
	2004	60,272	440.00	01.07.11 – 31.12.11
	2005	381,483	589.47	01.07.08 – 31.12.08
	2005	182,682	589.47	01.07.10 – 31.12.10
	2005	44,732	589.47	01.07.12 – 31.12.12
		2,974,427		
1997 Scheme	2000	55,000	379.00	23.03.03 – 22.03.07
	2001	198,000	592.00	06.04.04 – 05.04.08
	2002	416,500	609.00	09.04.05 – 08.04.09
	2003	961,402	489.00	21.05.06 – 20.05.13
	2004	1,627,028	556,00	19.03.07 – 18.03.14
	2005	1,417,992	810.50	06.05.08 – 05.05.15
	2005	147,090	818.20	19.05.09 – 18.05.15
	2005	27,500	759.17	26.10.08 – 25.10.15
		4,850,512		
SIP	2005	16,419	0.001	16.05.05 – 15.05.06
	2006	21,687	0.001	06.03.06 – 07.03.16
		38,106		
Ian Meakins share incentive plan	2004	119,946	0.001	01.12.05 – 01.12.14

7. Pensions

The Boots Group

The Boots Group provides retirement benefits for its former and current employees through a number of pension schemes including final salary (defined benefit) pension schemes.

The Boots Group's principal defined benefit scheme is the Boots Pension Scheme. Since 1 October 2000, in most circumstances, new employees of the Boots Group have been offered membership of the Boots Stakeholder Pension Plan, a funded defined contribution pension arrangement. After five years membership of the Boots Stakeholder Pension Plan employees may become eligible to join the Boots Pension Scheme. With effect from 1 June 2006, Boots closed the Boots Pension Scheme to new employees.

The Boots Group also operates the Boots Supplementary Pension Plan, a funded approved defined benefit plan, which provides top up benefits for senior executives. In common with other companies, additional unfunded unapproved defined benefit arrangements also exist for certain senior executives in the UK whose benefits are restricted by the UK HM Revenue and Customs limits. With effect from 1 June 2006, Boots closed the Boots Supplementary Pension Plan and the other unfunded defined benefits arrangements to new employees.

The Boots Group also operates defined benefit plans for a number of small overseas schemes.

The independent scheme actuary carried out the last full valuations of the Boots UK Schemes on 1 April 2004.

Although no formal valuations of the Boots Group's defined benefit schemes have been carried out in 2006, the independent scheme actuary has estimated the total pension deficit as at 31 March 2006. At 31 March 2006, on an IAS 19 basis, the aggregate value of the assets and liabilities of those schemes was estimated by the scheme actuary to be:

	2006 £million
Fair value of plan assets	**3,468.0**
Present value of funded obligations	**(3,524.2)**
Recognised liability for defined benefit obligations	**(56.2)**

The key assumptions on which the most recent IAS 19 figures were based as at 31 March 2006 were as follows:

	% pa
Discount rate	**4.9**
Inflation	**2.9**
Salary increases	**4.4**
Pension increases	**2.8**

Of the IAS 19 liability of £56.2 million, approximately £23 million related to the Boots Pension Scheme which had a funding level of over 99% on an IAS 19 basis and approximately £33 million related to the Boots Group's other defined benefit arrangements.

The Boots Group agreed, in 2005, to make good the actuarial funding shortfall of the Boots Pension Scheme of £85 million as at 1 April 2004 with additional contributions (over and above the normal accrual rate) of £11.7 million per annum for a ten year period. In addition, on 17 November 2005, the Boots Group also agreed to pay a further £85 million into the Boots Pension Scheme following completion of the sale of BHI. This payment, which was funded from the proceeds of the sale of BHI, was completed in April 2006 with a final contribution of £42.5 million, which fully accounted for the IAS 19 estimate of the deficit of the Boots Pension Scheme as at 31 March 2006.

Certain aspects of the Boots UK Schemes are further discussed in the "Risk Factors" section of this document.

Alliance UniChem Group

The Alliance UniChem Group operates material defined benefit pension plans in the United Kingdom, France, The Netherlands and Norway.

The United Kingdom

The Alliance UniChem Group operates a principal UK pension scheme, The Alliance UniChem Group UK Pension Scheme (the "Alliance UniChem Pension Scheme"), which has two plans: a funded defined benefit arrangement (the "UK Benefit Plan"), and a funded defined contribution arrangement (the "UK Contribution Plan"). Both plans are administered by an independent company and their assets are held under trust separately from those of the Alliance UniChem Group. The UK Benefit Plan has been closed to new joiners since 2 January 2002.

The pension costs in respect of the UK Benefit Plan are assessed in accordance with the advice of an independent firm of actuaries. The most recent actuarial valuation used for this purpose was carried out as at 1 January 2003. This has been updated to take account of the requirements of IAS 19, in order to assess the liabilities as at 31 December 2005.

The results of the assessment of the UK Benefit Plan's IAS 19 position as at 31 December 2005, undertaken by rolling forward the results of previous assessments, were as follows:

	2005 £million
Fair value of plan assets	**119.8**
Present value of funded obligations	**(167.9)**
Recognised liability for defined benefit obligations	**(48.1)**

The key assumptions on which the most recent IAS 19 figures were based as at 31 December 2005 were as follows:

	% pa
Discount rate	**4.8**
Inflation	**2.8**
Salary increases	**3.8**
Pension increases	**2.6**

On an IAS 19 funding basis as at 31 December 2005, this represents a funding level of 71% with a shortfall of £48.1 million.

Following the 2003 actuarial valuation, Alliance UniChem and the trustees of the Alliance UniChem Pension Scheme entered into a funding agreement under which it was agreed that an employer contribution rate of 10.9% of pensionable pay would be adopted, effective from 1 January 2004. In addition, annual payments of £5.5 million were agreed for 2003, 2004 and 2005 and further annual payments of £4.3 million for the subsequent 11 years. Previously, the rate payable had been 13.3% of pensionable pay since 1 January 2001.

Recently however, in order to reduce the deficit on the IAS 19 funding basis described above, Alliance UniChem has agreed to make annual contributions of £10.8 million, the first such annual payment has been made (rather than £4.3 million) pending the outcome of an actuarial valuation as at 1 January 2006 that is currently being undertaken. In addition, an amount of £0.5 million was paid by Alliance UniChem in April and in May 2006.

To avoid all of the annual payments under the funding agreement becoming immediately due and payable (if, amongst other circumstances, a merger between Alliance UniChem and another entity was approved by the Directors of Alliance UniChem), the funding agreement permits another entity to assume all of the obligations of Alliance UniChem under both the funding agreement and the Alliance UniChem Pension Scheme. TBC has thus agreed to assume such obligations of Alliance UniChem so no lump sum payment will be required with effect from Completion and Boots has agreed to guarantee such obligations of TBC.

The Alliance UniChem Group operates two funded unapproved retirement benefit schemes which provide targeted benefits.

Certain aspects of the Alliance UniChem Pension Scheme are further discussed in the "Risk Factors" section of this document.

Other Pension Arrangements

The Alliance UniChem Group also sponsors defined benefit plans in France, The Netherlands and Norway. These plans are accounted for on an IAS 19 basis and, as at 31 December 2005, the combined recognised liability for defined benefit obligations was £21.0 million.

The sterling figures are based on an exchange rate of Euro to GBP:1.452 and NOK to GBP:11.6. As with the Alliance UniChem Pension Scheme, the valuations of these schemes are dependent on market conditions and actuarial assumptions, including assumptions relating to mortality, and the amount of underfunding is therefore volatile.

The contributions payable to the plans in Norway and The Netherlands are set in accordance with local requirements. In France, the plans are only partially funded, as external funding of the plans operated is essentially voluntary with no specific funding requirements.

In Norway, there are five defined benefit plans in place. Four of the plans are insured and are accounted for as defined benefit plans. The fifth plan is an industry-wide multi-employer defined benefit plan operated by a government agency. This plan has been treated on a defined contribution basis under IAS 19 because the Alliance UniChem Group is unable to identify its share of the assets and liabilities on a consistent and reasonable basis. The contributions currently payable to this plan are calculated as a flat percentage of salary across all the employers and no account is taken of the actual accrued liabilities and assets of a particular employer. During 2005, the agency provided a notional allocation of the assets and liabilities. The Alliance UniChem Group's notional allocation of the deficit at 31 December 2005 was £7.7 million (2004 £2.1 million surplus). The government agency is reviewing the structure of this scheme with a view to identifying the assets and liabilities of the various participating employers. The results of this work may give a different allocation of the assets and liabilities from the notional allocation. Until this work is completed the scheme will continue to be accounted for as a defined contribution plan in accordance with IAS 19.

8. Related Party Transactions

For each of the years ended 31 March 2006, 2005 and 2004 or in the current financial year to date, Boots has entered into no material transactions with related parties other than £0.7 million of additional funding to handbag.com limited, a joint venture in which Boots had a 50% interest in the share capital until it was disposed of on 17 March 2005 and matters disclosed in note 32 to the audited consolidated financial statements of Boots set out in Part VII ("Historical Financial Information on the Boots Group") of this document.

Save as disclosed in the financial information set out in notes 21, 42, 43 and 49 of the financial statements for the year ended 31 December 2005, notes 26, 30 and 36 of the financial statements for the year ended 31 December 2004 and notes 26, 30, 32 and 33 of the financial statements for the year ended 31 December 2003 of the Alliance UniChem Group set out in Part VIII ("Historical Financial Information relating to Alliance UniChem") of this document, Alliance UniChem has entered into no material transactions with related parties, other than the trading transactions on arm's length terms described below, during the financial years ended 31 December 2003, 2004 and 2005 or in the current financial year to date.

Alliance UniChem Group has entered into trading transactions on arm's length terms with related parties during the financial years ended 31 December 2003, 2004 and 2005 as set out in note 34 (year ended 31 December 2003) note 34 (year ended 31 December 2004) and note 47 (year ended 31 December 2005) of the financial statements of the Alliance UniChem Group set out in Part VIII ("Historical Financial Information relating to the Alliance UniChem Group"). In addition, Alliance UniChem has entered into trading transactions on arm's length terms with related parties during the period from 1 January 2006 to 30 April 2006 (the latest practicable date prior to the publication of this document) as set out below:

	Revenue in period £million	Balance at period end £million
Pharmacy Initiative 1 Plc	**0.5**	**0.4**
Pharmacy Initiative 2 Plc	**0.4**	**0.3**
Pharmacy Initiative 3 Plc	**0.2**	**0.1**

9. Material Contracts

Material Contracts – The Boots Group

The following are all the contracts (not being contracts entered into in the ordinary course of business) that have been entered into by members of the Boots Group: (i) within the two years immediately preceding the date of this document which are, or may be, material to the Boots Group; or (ii) at any time and contain obligations or entitlements which are, or may be, material to the Boots Group as at the date of this document:

- Three agreements, each dated 30 March 1995 (as subsequently amended on 21 March 1997) between the Boots Company PLC ("TBC") as seller and Basfin Corporation, Lupharma GmbH and Knoll AG (each subsidiaries of BASF AG) respectively each as purchasers of the assets and companies comprising the Boots Pharmaceuticals business for an aggregate consideration of £840 million in cash payable on completion (which occurred on 31 March 1995) together with a cash payment at completion of $230 million representing the cash balance held by one of the companies sold, Boots Pharmaceuticals (Puerto Rico) Inc., and the discharge of indebtedness owed to TBC by the US part of the business being sold. The consideration paid on completion was subject to a completion net asset adjustment mechanism set out in a further agreement between TBC and BASF PLC dated 30 March 1995 (as subsequently amended on 6 June 1995, 28 July 1995 and 21 March 1997). This completion net asset adjustment resulted in a subsequent payment of $118,442,500 (or £73 million at the then prevailing rate of exchange) being made by BASF PLC, on behalf of the purchasers to TBC. These agreements, together with a number of related subsidiary deeds entered into between TBC and the relevant purchaser on completion, contained certain warranties, indemnities and covenants from TBC in favour of the relevant purchaser. The time limit for making claims under these warranties was extended by mutual agreement between the relevant parties in 1997 until 60 days after the date on which the proceedings referred to in paragraph 12 of this Part XIII are finally determined (whether by judicial decision, settlement or otherwise) and certain indemnities were given without a time limit on making claims. Various ancillary agreements entered into on completion have now expired. In 2001, BASF sold its worldwide pharmaceuticals business (including the assets and companies formerly comprising the Boots Pharmaceuticals business) to the Abbott group.

- An agreement dated 25 July 2002 (as amended and restated by an agreement dated 29 August 2002) each made between TBC (1) Halfords Limited ("Halfords") (2) Pinco 1789 Limited (3) and Pinco 1787 Limited (4) (together, the "Halfords Agreements") pursuant to which Pinco 1789 Limited (a company formed for the purpose of the acquisition of Halfords by Halfords' management and CVC Capital Partners Limited) acquired and TBC sold the entire issued share capital of Halfords on 30 August 2002 for an initial consideration of £410 million (subject to adjustment). The Halfords Agreements contain warranties and indemnities given by TBC considered normal for a transaction of this nature, the time limits for making claims under certain of which have not yet expired.

- The following agreements between TBC and IBM United Kingdom Limited ("IBM") each dated 30 September 2002 (as amended on 21 April 2006), involve expected expenditure over 10 years of up to £710 million:

  (a) a Business Transfer Agreement under which TBC agreed to transfer its undertaking relating to the internal provision of IT infrastructure to IBM along with the employment of 404 of its employees; and

  (b) a Services Agreement under which TBC agreed to purchase certain IT infrastructure and related services (the "Services") from IBM for a term of 10 years.

- An agreement dated 29 July 2005 made between various subsidiaries of Boots and various subsidiaries of REIT Asset Management ("REIT") pursuant to which REIT acquired 312 Boots high street stores for a consideration of £298 million and agreed to lease them back to Boots for a period of 15 years at an initial rental of £16.1 million per annum with fixed annual uplifts of 1.5%. Boots negotiated a degree of flexibility to exit properties early and may vacate a certain number of properties, without penalty, by giving not less than 12 months' notice.

- On 3 October 2005 (as amended on 2 June 2006), Boots and Alliance UniChem entered into the Framework Agreement in connection with the Merger. The parties each undertook to take all steps as are:

  (a) reasonably necessary or desirable for the purpose of satisfying the pre-conditions and conditions to the Merger; and

  (b) within its power and both reasonable and necessary to implement the Merger following receipt of clearance from the competition regulatory authorities.

  Each of the parties agreed that, prior to the Merger becoming effective or to termination of the Framework Agreement (whichever is earlier), it will not, subject to the fiduciary duties of the directors of such party and to the prior consent of the other party (such consent not to be unreasonably withheld or delayed):

  (a) carry on business other than in the ordinary course and consistent in all material respects with past practice;

  (b) engage in any act or omission which would require shareholder consent pursuant to Rule 21.1 of the Code on Takeovers and Mergers (in the case of Boots as if such provisions applied to it) or the Listing Rules; or

  (c) alter the nature or scope of its business in any way which is material in the context of the business of either party or of the Merger.

  Each of the parties has agreed, subject to certain limited exceptions, not to solicit any competing proposal to the Merger. Boots has agreed to pay Alliance UniChem a break fee of £43 million (inclusive of any amounts in respect of VAT) if:

  (a) an offer (howsoever structured) is announced for Boots and the Directors of Boots recommend such offer;

  (b) an offer (howsoever structured) is announced for Boots and such offer becomes or is declared wholly unconditional;

  (c) the recommendation by the Directors of Boots to Boots Shareholders to vote in favour of the Merger Resolutions is withdrawn, qualified or adversely modified; or

  (d) the Boots Shareholders fail to pass any of the Merger Resolutions (save for any such resolution not being passed as a result of the death or incapacity of the person named in such resolution or as a result of such person ceasing to be willing or able to be nominated as a director of Boots).

  Alliance UniChem has agreed to pay Boots a break fee of £31 million (inclusive of any amounts in respect of VAT) if, following the announcement of a firm intention to make an offer (howsoever structured) for Boots by a person with a direct or indirect controlling interest in a business, the principal activity of which is national pharmaceutical wholesale or pharmacy activity in the United Kingdom:

  (a) an offer (howsoever structured) is announced for Alliance UniChem and the Directors of Alliance UniChem recommend such offer;

  (b) an offer (howsoever structured) is announced for Alliance UniChem and such offer becomes or is declared wholly unconditional;

  (c) the recommendation by the Alliance UniChem directors to the Alliance UniChem Shareholders to accept the offer made by Boots, or as the case may be, vote in favour of the resolutions necessary to implement the Scheme is withdrawn, qualified or adversely modified; and

(d) on day 60 of the offer made by Boots (or such earlier or later date on which such offer closes), acceptances have been received for 50% or less of the Alliance UniChem Shares or, if the Merger is effected by way of the Scheme, the Alliance UniChem Shareholders fail to pass the resolutions necessary to implement the Merger.

The agreement may be terminated by either party in certain circumstances including where the Court declines or refuses to sanction the Scheme, the Board of either Boots or Alliance UniChem withdraws, qualifies or adversely modifies its recommendation of the Merger, the Boots Shareholders fail to pass the Merger Resolutions (save for any such resolution not being passed as a result of the death or incapacity of the person named in such resolution or as a result of such person ceasing to be willing or able to be nominated as a Director of Boots), the Alliance UniChem Shareholders fail to pass any of the resolutions to be proposed at the Court Meeting or the Alliance UniChem Extraordinary General Meeting (respectively).

Pursuant to the Framework Agreement, TBC has agreed to assume, with effect from Completion, certain obligations of Alliance UniChem in respect of the Alliance UniChem Pension Scheme and Boots has guaranteed such obligations of TBC.

- On 3 October 2005, Boots entered into an agreement (which was amended on 2 June 2006) with Stefano Pessina and a Luxembourg company controlled by him (which are together referred to as the "Covenantors") pursuant to which the Covenantors irrevocably undertook, subject as provided below, to accept the offer made by Boots or, if the Merger is to be effected by way of the Scheme, to vote in favour of the resolutions necessary to implement the Scheme.

  The Covenantors are, together, the registered and beneficial owners of approximately 30% of the entire issued share capital of Alliance UniChem.

  The undertakings given by the Covenantors will cease to have any force or effect in the event that (amongst other things):

  (a) the pre-conditions to the Merger are not satisfied by 13 months after the submission of the form CO or form RS (as the case may be) to the European Commission;

  (b) a competition authority irrevocably blocks the Merger;

  (c) the offer made by Boots is withdrawn or lapses;

  (d) the Boots Shareholders fail to pass the Merger Resolutions (save for any such resolution not being passed as a result of the death or incapacity of the person named in such resolution or as a result of such person ceasing to be willing or able to be nominated as a director of Boots);

  (e) if the Merger is to be effected by way of the Scheme, the Alliance shareholders do not pass the resolutions necessary to implement the Merger or the court refuses or declines to sanction the Scheme;

  (f) Stefano Pessina dies or becomes permanently incapacitated;

  (g) an offer (howsoever structured) for Boots is announced which is recommended by the Directors of Boots;

  (h) an offer for Boots (howsoever structured), which is not, or has not been, recommended by the Directors of Boots, becomes wholly unconditional;

  (i) the Directors of Boots withdraw, qualify or adversely amend their recommendation of the Merger to the Boots Shareholders;

  (j) an offer (howsoever structured) is made for Alliance UniChem and acceptances are received for such offer in respect of in aggregate more than 45% of the Alliance UniChem shares at that time;

(k) an offer (howsoever structured) is announced for Boots by a person with a direct or indirect controlling interest in a business, the principal activity of which is national pharmaceutical wholesale or pharmacy activity in the United Kingdom; and

(l) a third party or group of third parties acting in concert acquires shares, or rights over shares, carrying 25% or more of the voting rights exercisable at a general meeting of Boots.

- On 7 October 2005, Boots and TBC entered into a business and share sale agreement ("BSPA") to sell BHI and certain related assets to Reckitt Benckiser plc for an aggregate consideration, on a debt and cash free basis, of £1.93 billion in cash subject to a completion working capital and current asset adjustment. As at 31 May 2006, the latest practicable Business Day prior to the publication of this document, the working capital and current asset adjustment had not been finalised although Boots does not expect the adjustment, once finalised, to be material in the context of the BHI transaction. Pursuant to the BSPA, Boots and TBC gave certain warranties which Boots regards as customary for a transaction of this nature and also entered into a tax covenant. Boots and TBC's maximum aggregate liability under each of the warranties and the tax covenant is capped at an amount equal to the adjusted gross purchase price for BHI and the related assets. Pursuant to the BSPA, Boots and TBC also entered into an environmental covenant (subject to, save for claims in relation to the manufacturing sites, a maximum aggregate liability of £10 million) and an asbestos covenant (subject to a maximum aggregate liability of £1 million).

- Boots has entered into a new facility agreement with a syndicate of banks in connection with the Merger. Details of the agreement are contained in Part C of Part VI ("Capital Resources") of this document.

- Boots has entered into an engagement letter with Goldman Sachs International pursuant to which Goldman Sachs International agreed to act as sponsor and financial adviser to Boots in connection with the Merger. Boots has agreed to provide certain indemnities to Goldman Sachs International in connection therewith.

Material contracts — Alliance UniChem Group

The following are all the contracts (not being contracts entered into in the ordinary course of business) that have been entered into by members of the Alliance UniChem Group: (i) within the two years immediately preceding the date of this document which are, or may be, material to the Alliance UniChem Group; or (ii) at any time and contain obligations or entitlements which are, or may be, material to the Alliance UniChem Group as at the date of this document:

- On 21 June 1996, Alliance UniChem (then called UniChem plc) entered into an agreement (the "UDG Agreement") with United Drug plc ("United Drug"), a company registered in Ireland, to provide pre-wholesale distribution services to pharmacies and healthcare manufacturers operating in the UK market through a new company, UniDrug Distribution Group Limited ("UDG"). Alliance UniChem Group owns 498 shares in UDG and United Drug owns 500 shares in UDG.

  Pursuant to the UDG Agreement, Alliance UniChem and UniDrug are each entitled to appoint up to three directors of the board of UDG and to be kept fully informed of the progress of UDG's business. There is also a provision in the UDG Agreement for either party to purchase all the shares in UDG held by the other party if there is a change of control in that other party. Therefore, following Completion, United Drug will have the option to purchase all of Alliance UniChem's shares in UDG by serving an option notice (the "Option Notice") on Alliance UniChem within fourteen days of United Drug being informed that Completion has occurred. If an Option Notice is served, Alliance UniChem and United Drug must seek to agree a price for Alliance UniChem's holding in UDG and, if no agreement is reached within 20 days of service of the Option Notice, the purchase price is to be determined by a designated accountant.

  The Agreement contains non-competition provisions in relation to UDG which are applicable to both Alliance UniChem and United Drug. After Completion, these provisions will apply to the Enlarged Group.

- On 22 November 1999, Alliance UniChem entered into an agreement with a Swiss company, Galenica Holding Limited ("Galenica"), pursuant to which Alliance UniChem and Galenica established joint venture companies (including GaleniCare Holding AG ("GaleniCare")) to develop common business opportunities within Switzerland and the rest of Europe, notably in the fields of pre-wholesaling, retail trading, OTC businesses and distribution. Pursuant to a shareholders' agreement dated 14 December 2001 between Alliance UniChem, Prewos 1, a wholly owned subsidiary of Alliance UniChem registered in Luxembourg, and Galenica, Alloga AG ("Alloga") was established to manage the pre-wholesaling of healthcare products side of this business. On 1 February 2005, Alliance UniChem, Alliance UniChem Group Limited ("AUG"), a wholly owned subsidiary of Alliance UniChem registered in England, and Galenica entered into an agreement to restructure their respective holdings in Alloga and GaleniCare (the "Restructuring Agreement"). As a result, Alliance UniChem gained 100% ownership of Alloga's subsidiaries outside Switzerland, including entities in Italy, Spain, Portugal and The Netherlands, as well as holdings in UniDrug Distribution Group Limited and Loxxess GmbH all held via Alloga Luxembourg S.A. ("Alloga Luxembourg") and divested all its interests in GaleniCare and Alloga (renamed Alloga Switzerland) to Galenica. Alliance UniChem and Galenica also agreed to enter into a strategic partnership agreement whereby Alloga Luxembourg and Alloga Switzerland would be exclusive partners for the provision of pre-wholesaling services outside of their respective territories.

  Following this restructuring, Galenica remains a 25.5% owned associate of Alliance UniChem, making Alliance UniChem the largest shareholder of Galenica. Alliance UniChem is prohibited by the Restructuring Agreement from acquiring shares representing more than 25.99% of the share capital of Galenica. For so long as Alliance UniChem remains a shareholder of Galenica, Alliance UniChem is entitled to appoint one director to its board. The director so appointed is entitled to be included in the official proposals for election of the Galenica board to be sent to Galenica shareholders for annual general meetings. Galenica does not have the right of representation on the Alliance UniChem board (although, at present, Etienne Jornod continues to be a non-executive director having initially been nominated by Galenica).

  Alliance UniChem has a right of first refusal over the shares in GaleniCare and Alloga Switzerland owned by Galenica and on any transfer of a significant part of the assets of GaleniCare and Alloga Switzerland. Galenica has an equivalent right of first refusal over the shares in Alloga Luxembourg owned by Alliance UniChem and on any transfer of a significant part of the assets of Alloga Luxembourg.

  Alliance UniChem and Galenica entered into non-competition provisions for a duration of three years post completion of the Restructuring Agreement. Pursuant to these, the Alliance UniChem Group cannot engage in any pre-wholesaling, wholesaling or retailing activities in Switzerland which Alloga Switzerland carried on in the two years prior to completion of the restructuring and Galenica and its group cannot engage in pharmaceutical pre-wholesaling in markets outside of Switzerland where Alloga Luxembourg and its subsidiaries carried on business in the two years prior to completion.

  Pursuant to the Restructuring Agreement, Alliance UniChem and Galenica formed a strategic and supervisory committee composed of three directors from each company. The committee meets twice a year to discuss strategy.

- On 1 December 2000, Alliance UniChem entered into an agreement with Hedef Holding AS ("Hedef"), a company incorporated in Turkey, and seventeen Hedef shareholders (the "Principal Shareholders"), pursuant to which the Alliance UniChem Group acquired 25%. of the share capital of Hedef from the Principal Shareholders. On 30 June 2002, Alliance UniChem exercised its option to acquire a further 25%. of the share capital of Hedef, increasing its ownership to 50%.

  Through this strategic partnership, Alliance UniChem used Turkey as a gateway to new regions in which to expand its existing wholesale pharmaceutical business. The name of Hedef was changed to Hedef Alliance Holdings A.S. and Alliance UniChem is entitled to appoint three of the eight directors of the board of Hedef. In addition, for so long as Alliance UniChem and its affiliates hold at least 20%. of the issued share capital of Hedef (or, in certain circumstances, at least 25%) then a number of matters require either the prior approval of at least one Alliance UniChem nominated director or the positive vote of the majority of the shares held by Alliance UniChem and its affiliates at general meeting (as appropriate). These matters include any material change to Hedef's business, the approval or amendment of Hedef's business plan, entering into material transactions (including acquisitions and disposals and borrowings), declaration of dividends, changes to accounting policies or auditors, engaging in material litigation, entering transactions outside the ordinary course or business or with persons holding a 5% or greater shareholding in Hedef or their affiliates and appointing or dismissing any managing director or chief executive officer of Hedef.

Other than on certain permitted transfers (including intra-group transfers) pre-emption rights in favour of other shareholders apply on the proposed transfer of shares in Hedef.

Alliance UniChem and the Principal Shareholders have given undertakings not to be interested in any business which competes with Hedef in Turkey while a shareholder in Hedef or for 2 years subsequent to ceasing to be a shareholder.

There is a provision in the agreement which states that, save in relation to a merger of equals, if a person or persons acting together acquire shares carrying more than 50%. of the voting rights in Alliance UniChem pursuant to a takeover offer and within six months of such acquisition a majority of the management team of Alliance UniChem prior to such takeover offer cease to be employed by the Alliance UniChem Group, Alliance UniChem shall no longer have any veto rights. Boots and Alliance UniChem believe that the merger of equals exception applies to the Merger and so that this provision is therefore not applicable. In any event, it is not intended that within six months of the Merger a majority of Alliance UniChem's management team prior to the Merger will cease to be employed by the Alliance UniChem Group.

- On 28 June 2005, Alliance Santé Europe S.A. ("ASE") entered into an agreement with Farmindústria-Investimentos, Participações e Gestão S.A. ("Farmindústria"), a company registered in Portugal and a subsidiary of Associacao Nacional das Farmacias, the national association of Portuguese pharmacies, and José de Mello Participações II, SGPS S.A. ("JM"), a company registered in Portugal. Farmindústria acquired 49%, and JM 2%, of ASE's holding in Alliance UniChem Farmacéutica S.A. ("Farmacéutica").

  The objective of this joint venture was to accelerate the development of Alliance UniChem's Portuguese wholesale business through Farmacéutica's exclusive position in representing Portuguese pharmacies.

  The board of Farmacéutica was comprised of two ASE appointees, two Farmindústria appointees and one JM appointee. So long as ASE or Farmindústria hold at least one third of the issued share capital of Farmacéutica certain matters require the prior approval of at least one of the directors appointed by them. These matters include certain material transactions (including acquisitions and disposals and borrowings), making a material change in the nature or geographic area of the business, approval of business plans, entering transactions outside the ordinary course of business, change in auditors, commencement of material litigation, appointment of a managing director and certain actions relating to Farmacéutica's share capital.

  On a deadlock occurring which is not then resolved, the deadlock is referred to the chairmen of ASE and Farmindústria. If the deadlock is still not resolved, then the proposed action to which the deadlock relates shall not proceed. However, in the event of an unresolved deadlock, either ASE or Farmindústria may serve a notice on the other specifying a price at which it offers to sell all of its shares and offerring to purchase all of the other party's shares at the same price. The other party must either accept the offer to sell or the offer to purchase at the given price.

  ASE, Farmindústria and JM have given undertakings not to be interested in any business which competes with Farmacéutica and/or its subsidiaries wholesale business in Portugal (including the Azores and Madeira) while a shareholder or for 5 years subsequent to ceasing to be a shareholder. These covenants do not apply to Alloga Portugal (a subsidiary of Alliance UniChem) which operates a pre-wholesale business or to Farmindústria's central purchasing warehouse.

As the identity and reputation of ASE was an essential consideration in Farmindústria and JM becoming shareholders of Farmacéutica, ASE agreed to retain one third of the share capital of Farmacéutica for a period of seven years form the date of the agreement. In addition, other than certain permitted transfers (including intra-group transfers) a proposed transfer of shares is subject to a pre-emption right in favour of the other shareholders.

- In connection with a securitisation of loans to pharmacies, on 17 November 2004 Alliance UniChem and UniChem Limited entered into a sub-participation agreement and a standing offer to purchase agreement with, among others, a participant and a syndicate of banks pursuant to which Alliance UniChem and UniChem Limited provided, among other things, certain representations and covenants. Under such agreements, UniChem Limited has the right to purchase the underlying pharmacy loans and/or related facilities provided that the relevant notice has been given. To provide further support to the securitisation, (a) Alliance UniChem and UniChem Limited entered into a fee letter and a deed of covenant in relation to the first loss letter of credit facility and the excess concentration letter of credit facility and (b) Alliance UniChem entered into a deed of guarantee in relation to a revolving credit facility. Alliance UniChem, under both deeds, and UniChem Limited, under the deed of covenant, have provided certain representations and covenants in connection with the underlying pharmacy loans. Alliance UniChem and UniChem Limited have the benefit of, and are subject to (including priority of payment and limited recourse), the provisions of a deed of charge. As the Merger could, prima facie, constitute an event of default in connection with this securitisation, Alliance UniChem has obtained waiver letters from all relevant parties to any potential default caused by the Merger.

- In connection with a securitisation of pharmaceutical and/or healthcare product receivables owed to UniChem and E. Moss Limited ("Moss") (the "Receivables"), on 7 August 2001 Alliance UniChem and UniChem entered into three subscription agreements as the A1 Issuer to provide the relevant representations and warranties and covenants in relation to the issuance, by Alliance No. 1 plc, of £35,000,000 Class A1 Secured Floating Rate Notes, £63,000,000 Class A2 Secured Floating Rate Notes and £2,000,000 Class B Secured Floating Rate Notes, all due on the interest payment date falling in August 2006 (whereupon all principal will have to be repaid to the noteholders) and backed by the Receivables. Moss also provided the relevant representations and warranties and covenants in respect of the Class A1 Notes. To facilitate the sale of the Receivables to the A1 Issuer, on 8 August 2001 each of UniChem Limited and Moss issued a notice of intention to make offers to sell and entered into a warranty, indemnity and repurchase deed, a trust deed and a deed of charge in respect of its own Receivables. To provide further support to the securitisation, on the same date (a) Alliance UniChem Group, UniChem Limited and Moss agreed to act as servicer or sub-servicer (as the case may be) in respect of the Receivables sold to the A1 Issuer by entering into a servicing agreement, (b) each of Alliance UniChem Group, UniChem Limited and Moss entered into a separate subordinated loan agreement with the A1 Issuer, and (c) each of UniChem Limited and Moss agreed to declare a trust in favour of itself and the A1 Issuer over the total amount standing to the credit of its collection account by entering into a separate declaration of trust. Alliance UniChem, UniChem Limited and Moss have the benefit of, and are subject to (including priorities of payment), the provisions of a deed of charge. On 4 June 2001, Alliance UniChem, UniChem Limited and Moss agreed to amend certain transaction documents by entering into a deed of amendment with, among others, the A1 Issuer. Such amendments were intended, among other things, to enable the A1 Issuer to reinvest excess cash in eligible Receivables during a calculation period prior to a calculation date.

- On 24 June 2002, Alleanza Salute Distribuzione S.p.A., Nuova Safarm S.p.A. and Galenitalia S.p.A. (the "Sellers"), all companies within the Alliance UniChem Group, entered into a receivables securitisation agreement (the "RSA") with, *inter alia*, Alleanza Salute N.1 S.r.l. (the "Issuer"), pursuant to which the Sellers have agreed that they may irrevocably offer to sell and assign to the RSA Issuer some existing and future receivables relating to goods and services supplied to their customers (the "Receivables"), to be securitised pursuant to

Italian law No. 130 of 30 April 1999 (the "Securitisation"). On the same date, the Sellers offered and sold a portfolio of Receivables (the "Portfolio") to the RSA Issuer which funded the purchase of the Portfolio (the purchase price being Euro 132,905,803.54, plus a deferred purchase price where available at the close of the Securitisation) through the issuance of euro 150,000,000 Asset-Backed Floating Rate Notes due 2007 (the "Notes"), subscribed by Eureka Securitisation plc and Co-operative Receivables Corporation. The maturity of the Notes is 24 June 2007. The Notes have not been listed and are not guaranteed. In the context of the Securitisation, the Sellers have given certain representations and warranties in favour of the noteholders in respect of the Portfolio and have agreed to indemnify the noteholders in respect of certain liabilities incurred in connection with any misrepresentation or breach of any undertaking. The Notes become immediately due and repayable if the RSA Issuer does not pay any amount due under the Notes, does not perform any of its other obligations under the Notes, becomes subject to any insolvency, liquidation or reorganisation proceedings, or adopts an effective resolution, or an order is passed, for its winding-up, dissolution or liquidation, if the performance of the obligations of the RSA Issuer under the Notes is or becomes unlawful, or if any of the termination events provided for by the RSA occurs.

- On 16 December 1997, Alliance Santé S.A.S. and Alliance Santé Finance Limited, both companies within the Alliance UniChem Group, entered into a five-year trade receivables securitisation programme arranged by Citibank N.A. (the "French Securitisation Programme") pursuant to which Alliance Santé S.A.S. may indirectly (via Alliance Santé Finance Limited) transfer certain of its trade receivables to Eureka Securitisation plc. For this purpose, Alliance Santé S.A.S. and Alliance Santé Finance Limited entered into a French law governed inter-company receivables agreement and Alliance Santé Finance Limited and Eureka Securitisation plc entered into a French law receivables agreement. Under the French Securitisation Programme, Alliance Santé S.A.S. remains in charge of the servicing, administration and collection of the transferred receivables and Citibank N.A., London branch, is the operative agent. On 12 December 2002, Alliance Santé Finance Limited agreed to place, from time to time and in connection with the French Securitisation Programme, non-interest bearing Alliance UniChem Group collateral with Eureka Securitisation plc under the terms of an English law collateral agreement for the guarantee of all payments and/or obligations owing to Eureka Securitisation plc by Alliance Santé Finance Limited. This collateral is backed by a similar Alliance UniChem Group collateral to be placed by Alliance Santé S.A.S. with Alliance Santé Finance Limited under the same terms and conditions. The facility limit of under French Securitisation Programme is €275,000,000. On 12 December 2002, Citibank N.A. agreed to renew the French Securitisation Programme until 13 December 2007. The applicable interest rate under the French Securitisation Programme is the actual cost of commercial paper and/or notes issued by Eureka Securitisation plc to fund the acquisition of receivables from Alliance Santé Finance Limited, together with related dealer commissions, reasonable administration costs and the cost of swapping the proceeds of the commercial paper and/or notes into the currency of the securitised receivables. This interest rate is determined by Citibank, NA ("Citibank") acting as operating agent under the French Securitisation Programme. If Eureka Securitisation plc cannot fund the acquisition of receivables through the issuance of commercial paper and/or notes, the interest rate will be LIBOR plus 0.75% per annum. Under a fees letter dated 12 December 2002, Alliance Santé SAS has agreed to pay to Citibank as operating agent of the French Securitisation Programme a programme fee in an amount equal to the sum of (i) 0.11% per annum of the purchase price of the receivables less a reserve amount paid to Eureka Securitisation plc and collections reducing the capital and (ii) 0.125% per annum of €275,000,000. In addition, Alliance Santé SAS has agreed to pay to and reimburse Citibank of any out-of-pocket expenses reasonably incurred in connection with the completion of the French Securitisation Programme. Separately, Alliance Santé SAS is obliged to pay to Alliance Santé Finance Limited a fee equal to €10,000 per annum. A collection fee is payable should Alliance Santé Finance Limited no longer act as the servicer of the securitised receivables. This collection fee is determined by Citibank.

- On 3 October 2005, Alliance UniChem Group entered into the Framework Agreement with Boots in connection with the Merger. Details of the agreement are contained in the paragraph on the material contracts of Boots, above.

10. Significant Subsidiaries

Boots Group

Details of Boots' significant subsidiaries are as follows:

Subsidiary	Countries of incorporation	Principal activities	Percentage held by Boots	Percentage held by subsidiary undertakings of Boots
The Boots Company PLC	England and Wales	Manufacturing, marketing and distribution of healthcare and consumer products	100%	—
Boots Properties Limited	England and Wales	Property holding	—	100%
Boots The Chemists Limited	England and Wales	Retail chemists	—	100%
Boots Beauty International Limited	England and Wales	International marketing	—	100%
Boots Opticians Limited	England and Wales	Retailer of optical products	—	100%

Alliance UniChem Group

Details of Alliance UniChem's significant subsidiaries are as follows:

Subsidiary	Countries of incorporation	Principal activities	Percentage held by subsidiary undertakings of Alliance UniChem
UniChem Limited	England and Wales	Pharmaceutical wholesaler	100%
Interpharm B.V.	The Netherlands	Pharmaceutical wholesaler	100%
Alliance UniChem CZ Spo	Czech Republic	Pharmaceutical wholesaler	97.1%
Holtung A.S.	Norway	Pharmaceutical wholesaler	100%
Apteka Holding Z.A.O.	Russia	Pharmaceutical wholesaler	96%[1]
Alliance Santé S.A.	France	Pharmaceutical wholesaler	99.8%
Alleanza Salute Italia SpA	Italy	Pharmaceutical wholesaler	100%
Safa Galenica S.A.	Spain	Pharmaceutical wholesaler	99.2%
Alloga SA	Luxembourg	Holding company for pre-wholesalers	100%
E. Moss Limited	England and Wales	Retail pharmacy operator	100%
Alliance UniChem Norge A.S.	Norway	Retail pharmacy operator	100%
De Vier Vijzels B.V.	The Netherlands	Retail pharmacy operator	100%

1 Apteka Holding Z.A.O. is 100% owned by its immediate parent company which is in turn 96% owned by the Alliance UniChem Group.

11. Significant Changes

Boots Group

There has been no significant change in the financial or trading position of the Boots Group since 31 March 2006, being the date to which Boots' most recent audited consolidated financial statements (which are set out in Part VII ("Historical Financial Information Relating to the Boots Group") of this document) have been prepared.

Alliance UniChem Group

There has been no significant change in the financial or trading position of the Alliance UniChem Group since 31 December 2005, being the date to which Alliance UniChem's most recent audited consolidated financial statements (which are set out in Part VIII ("Historical Financial Information Relating to the Alliance UniChem Group") of this document) have been prepared.

12. Working Capital Statement

Boots is of the opinion that, taking account of available facilities and cash resources, Boots has sufficient working capital for its present requirements, that is, for at least the next twelve months from the date of publication of this document.

13. Litigation

Boots Group

Save as disclosed below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Boots is aware) during the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the financial position or profitability of the Boots Group.

Knoll Pharmaceutical Co. ("Knoll") has been a defendant in a number of consumer class actions in 30 states of the USA, Canada and Puerto Rico. Knoll was the successor to Boots Pharmaceuticals Inc., formerly an indirect subsidiary of TBC, which was sold to BASF group under agreements made by TBC in March 1995. TBC was named as a defendant in some of these actions, which allege that the marketing of the product Synthroid did not comply with consumer protection and business practice laws. A settlement by Knoll of most of the consumer actions and claims of insurers and state attorneys general in the United States has been approved and a settlement of most of the actions in Canada has been approved. TBC asserted that the relevant courts in North America had no jurisdiction over it in these cases and this was approved by a state court in Illinois. In the light of current information, the Directors of Boots believe that TBC has good defences to such claims as may arise concerning Synthroid including any that might be brought by BASF and, while the outcome of such claims remains uncertain, they believe that it should not have a material adverse impact on the Enlarged Group.

Alliance UniChem Group

Save as disclosed below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Boots is aware) during the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the financial position or profitability of the Alliance UniChem Group.

On 28 June 2005, Alliance Sante Europe S.A. ("ASE") sold 49% of Alliance UniChem Farmacêutica S.A. ("Farmacêutica") to Farmindustria-Investimentos, Participacoes e Gestao S.A. ("Farmindustria") and a further 2% of Farmacêutica to Jose de Mello Participacoes II, SGPS S.A. ("JM") and entered into a joint venture agreement with Farmindustria and JM in relation to Farmacêutica (see paragraph 9 of this Part XIII for further details of such sale and joint venture agreement). On 27 July 2005, the Portuguese Competition Authority served notice on the parties that a notification of this transaction should have been submitted to it, which notification was then duly submitted by the parties. The Portuguese Competition Authority then initiated an investigation into the transaction. ASE understands the ongoing investigation is likely to be concluded by the end of 2006. Pending the completion of this investigation, the sale and the joint venture agreement remain effective in all respects.

While it is difficult to predict the outcome of these proceedings, Boots has been informed that ASE believes it has complied with Portuguese law. In the event of an unfavourable outcome, any liability ASE might incur is covered by its contractual arrangements with Farmindustria.

14. Dividends

The following table sets out the interim and final dividend per Boots Share for each financial year ended 31 March 2006, 2005 and 2004 (the figures in brackets show the dividend per Boots Share for the relevant year as it would have been if the number of Boots Shares ranking for dividend had been 479,385,929 throughout the period):

For the years ended 31 March	Interim dividend (pence/Boots Share)	Final dividend (pence/Boots Share)
2006	9.1 (13.4)	21.0 (21.0)
2005	9.1 (13.9)	21.0 (31.3)
2004	8.8 (14.1)	21.0 (33.1)

15. Environmental Issues

Boots Group

Boots is of the opinion that there are no environmental issues which may affect the Boots Group's utilisation of its tangible fixed assets.

Alliance UniChem Group

Boots is of the opinion that there are no environmental issues which may affect the Alliance UniChem Group's utilisation of its tangible fixed assets.

16. Sources and Bases of Selected Financial Information

In this document:

16.1 Unless otherwise stated:

(a) financial information relating to Alliance UniChem and the Alliance UniChem Group has been extracted without material adjustment from the audited consolidated financial statements of Alliance UniChem for the relevant financial year; and

(b) financial information relating to Boots and the Boots Group has been extracted without material adjustment from the audited consolidated financial statements of Boots for the relevant financial year.

16.2 Unless otherwise stated, all prices quoted for Boots Shares are closing mid-market prices and are derived from the Daily Official List of the London Stock Exchange.

16.3 All share prices expressed in pence and all percentages have been rounded to one decimal place.

17 General

17.1 The aggregate costs and expenses payable by Boots in connection with the Merger are estimated to amount to approximately £42 million (excluding amounts in respect of VAT).

18. Consents

18.1 Goldman Sachs International has given and not withdrawn its written consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.

18.2 KPMG Audit Plc has given and not withdrawn its written consent to the inclusion in Part IX ("Information on the Expected Impact of the Merger on the Assets and Liabilities of the Boots Group") and in Part X ("Accounting Policies and Estimates") of this document of its reports in the form and context in which they appear and has authorised the contents of those reports for the purpose of Prospectus Rule 5.5.3 R (2)(f).

19. Documents available for inspection

Copies of the following documents:

- the existing Memorandum and Articles of Association of Boots;
- the audited consolidated financial statements of Boots for the three years ended 31 March 2006, 2005 and 2004;
- the consent letters referred to in paragraph 18 above;
- the reports from KPMG Audit Plc set out in Part IX ("Information on the Expected Impact of the Merger on the Assets and Liabilities of the Boots Group") and in Part X ("Accounting Policies and Estimates") of this document;
- the Scheme Document;
- the Circular;
- the irrevocable undertaking referred to in this document;
- the Framework Agreement referred to in this document; and
- this document,

are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period from the date of publication of this document until Admission at:

(i) the registered office of Boots; and

(ii) the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY.

5 June 2006

DEFINITIONS

The following terms have the following meanings throughout this document unless the context otherwise requires:

"Act" or "Companies Act"	the Companies Act 1985, as amended
"Admission"	the admission of the New Boots Shares to the Official List and to trading on the London Stock Exchange's market for listed securities
"Alliance UniChem"	Alliance UniChem Plc, a company incorporated in England and Wales with registered number 02517178
"Alliance UniChem Extraordinary General Meeting"	the extraordinary general meeting of Alliance UniChem to be convened in connection with the Scheme, including any adjournment thereof
"Alliance UniChem Merger Dividend"	the interim dividend which is proposed to be paid to Alliance UniChem Shareholders on the register of members of Alliance UniChem at the close of business on the Business Day prior to the Effective Date, as described in paragraph 6 of Part II ("Further Information on the Merger") of this document
"Alliance UniChem Group"	Alliance UniChem and its subsidiary undertakings
"Alliance UniChem Options"	options or awards granted under the Alliance UniChem Share Option Schemes
"Alliance UniChem Share Schemes"	the Alliance UniChem 1997 Share Option Scheme, the Alliance UniChem Share Incentive Plan, the Alliance UniChem Savings Related Share Option Scheme 1990 and the Ian Meakins Share Incentive Scheme
"Alliance UniChem Shareholders"	holders of Alliance UniChem Shares, as appearing in the register of members of Alliance UniChem from time to time
"Alliance UniChem Shares"	fully paid ordinary shares of 10 pence each in the capital of Alliance UniChem
"BHI"	the Boots Healthcare International division of the Boots Group which was disposed of on 31 January 2006
"BRI"	the Boots Retail International division of the Boots Group
"BTC"	the Boots The Chemists division of the Boots Group
"Board"	the board of directors of Alliance UniChem or Boots or, as the case may be, the Enlarged Group, as constituted from time to time

"BOL"	the Boots Opticians division of the Boots Group
"Boots" or the "Company"	Boots Group PLC, a company incorporated in England and Wales with registered number 04452715
"Boots Extraordinary General Meeting"	the extraordinary general meeting of Boots convened by the notice set out in the Circular sent to Boots Shareholders including any adjournment thereof
"Boots Group"	Boots and its subsidiary undertakings
"Boots Merger Dividend"	the interim dividend which is proposed to be paid to Boots Shareholders on the register of members of Boots at the close of business on the Business Day prior to the Effective Date, as described in paragraph 6 of Part II ("Further Information on the Merger") of this document
"Boots Options"	options granted under the Boots Share Option Schemes
"Boots Pension Scheme"	the pension scheme known as Boots Pension Scheme, constituted by a second definitive Trust Deed and Rules dated 17 October 1994, as amended from time to time or, if the context so requires, the trustees of that scheme
"Boots Share Option Schemes"	The Boots 1990 Executive Share Option Scheme; The Boots Group Executive Share Option Plan 2002; The individual Executive Share Option Plan for Mr. Baker; The Boots 1990 SAYE Share Option Scheme; The Boots Group SAYE Share Option Plan 2002; The Boots Company All-Employee Share Ownership Plan 2000; The Boots Company All-Employee Share Ownership Plan 2002; The Boots Long-Term Bonus Scheme 1996; The Boots Long-Term Bonus Scheme 1999; The Boots Group Long-Term Bonus Plan 2002
"Boots Shareholders"	holders of Boots Shares, as appearing in the register of members of Boots from time to time
"Boots Shares"	fully paid ordinary shares of 37 7⁄39 pence each in the capital of Boots
"Boots Supplementary Pension Plan"	the Boots supplementary pension plan referred to in paragraph 7 of Part XIII ("Additional Information") of this document
"Boots UK Schemes"	the Boots Pension Scheme and the Boots Supplementary Pension Plan

"Business Day"	any day (other than a Saturday or Sunday or public holiday) on which banks open for business in London
"CAT"	the Competition Appeal Tribunal
"Circular"	the circular sent by Boots to Boots Shareholders today convening the Boots Extraordinary General Meeting
"City Code" or "Code"	The City Code on Takeovers and Mergers
"Closing Price"	the closing middle market quotation of Alliance UniChem Shares and Boots Shares, as the case may be
"Completion"	the Scheme becoming effective or, as the case may be, any offer made by Boots for Alliance UniChem becoming or being declared unconditional in all respects
"Conditions"	the conditions to the implementation of the Merger, which are summarised in paragraph 3 of Part II ("Information on the Merger") of this document and which are set out in full in the Scheme Document Part 4 ("Conditions to Implementation of the Scheme and Scheme the Merger") of the Scheme Document
"Court"	the High Court of Justice in England and Wales
"Court Meeting"	the meeting of the Alliance UniChem Shareholders convened by order of the Court pursuant to section 425 of the Companies Act to be held at 10.30 a.m. on 5 July 2006 to consider and, if thought fit, approve the Scheme, notice of which is set out in Part IV ("Notice of Court Meeting") of the Scheme Document, including any adjournment thereof
"CREST"	the relevant system (as defined in the Uncertificated Securities Regulations 2001) in respect of which CRESTCo Limited is the Operator (as defined in such regulations)
"Daily Official List"	the daily official list of the London Stock Exchange
"Director"	a director of Boots or Alliance UniChem, as the case may be
"Disclosure Rules"	the disclosure rules brought into effect on 1 July 2005 to implement Article 6 of Commission Directive 2003/6/EC, Articles 2 and 3 of Commission Directive 2003/124/EC and Articles 5 and 6 of Commission Directive 2004/72/EC

"Effective Date"	the date on which the Scheme becomes effective
"Enlarged Group"	the Boots Group and the Alliance UniChem Group following completion of the Merger
"Framework Agreement"	the agreement relating to the Merger between Boots and Alliance UniChem dated 3 October 2005
"FSMA"	the Financial Services and Markets Act 2000, as amended
"Independent Competing Offer"	an offer or scheme of arrangement or recapitalisation or other transaction involving a possible change of control of Alliance UniChem or Boots which, if accepted in full, would result in the offeror holding shares carrying over 50% of the voting rights of Boots or Alliance UniChem (as the case may be) and which is made by or with a party which is not acting in concert (as such term is defined in the Code) with Alliance UniChem or Boots
"IFRS"	International Financial Reporting Standards, as adopted for use in the European Union
"LTBS"	Boots Long Term Bonus Scheme, as described in this document
"Listing Rules"	the Listing Rules of the UK Listing Authority, as amended from time to time
"London Stock Exchange"	London Stock Exchange plc
"Merger"	the proposed merger of Boots and Alliance UniChem
"Merger Resolutions"	the following resolutions to be proposed at the Boots Extraordinary General Meeting: • the ordinary resolution to approve the Merger, to increase Boots' authorised share capital and to grant the Boots Directors authority to allot the New Boots Shares; • the ordinary resolutions to appoint each of the Proposed Directors (other than Scott Wheway) as a Director of Boots subject to Completion (except for any such resolution which is not passed as a result of the death or incapacity of the person named in such resolution or as a result of the person named in such resolution ceasing to be willing or able to be nominated as a director of Boots); and • the special resolution to change the Boots' articles of association to remove the requirement for a Director who reaches the age of 65 to vacate the office of Director at the next annual general meeting subject to Completion
"New Boots Shares"	up to 481,846,975 new Boots Shares to be issued fully paid in connection with the Merger

"Official List"	the Official List of the UK Listing Authority
"OFT"	the Office of Fair Trading
"Operating Profit"	profit from operations before share of associates' post-tax earnings and items classified by Alliance UniChem as exceptional
"Overseas Shareholders"	Scheme Shareholders who are resident in, ordinarily resident in, or citizens of, jurisdictions outside the United Kingdom
"Panel"	the Panel on Takeovers and Mergers
"Proposed Directors"	the persons each of whom is proposed to be appointed as a director of Boots with effect from Completion and who are listed on page 10 of this document
"Prospectus Rules"	the prospectus rules brought into effect on 1 July 2005 to implement Article of Commission Directive 809/2004/EC
"Reduction of Capital"	the reduction of Alliance UniChem's share capital associated with the cancellation and extinguishing of the Scheme Shares provided for by the Scheme under section 135 of the Companies Act
"Resolutions"	the resolutions proposed at the Boots Extraordinary General Meeting
"Restricted Jurisdiction"	Australia and Japan and any other jurisdiction where the New Boots Shares cannot be made available without breaching any applicable law
"Scheme"	the scheme of arrangement of Alliance UniChem proposed to be made under section 425 of the Companies Act on the terms set out in the Scheme Document
"Scheme Document"	the document sent to Alliance UniChem Shareholders which contains, among other things, the terms and conditions of the Scheme
"Scheme Record Time"	6.00 p.m. on the Business Day immediately preceding the Effective Date
"Scheme Shareholders"	holders of Scheme Shares
"Scheme Shares"	• the Alliance UniChem Shares in issue at the date of the Scheme Document; • any Alliance UniChem Shares issued after the date of the Scheme Document and before the Voting Record Time; and

- any Alliance UniChem Shares issued at or after the Voting Record Time and before 6.00 p.m. on the Business Day prior to confirmation by the Court of the Reduction of Capital provided for by the Scheme in respect of which the original or any subsequent holders thereof are, or shall have agreed in writing to be, bound by the Scheme

"Special Dividend"	the special dividend of, in aggregate, approximately £1.43 billion paid to the Boots Shareholders following the completion of the sale of BHI
"TBC"	the Boots Company PLC
"Taxes Act"	the Income and Corporation Taxes Act 1988
"Trading Profit"	profit before taxation and net finance costs excluding (a) items which the Directors of Boots consider one-off or unusual and (b) profits and losses on the disposal of non-current assets. A reconciliation from operating profit before finance costs to Trading Profit/(Loss) in relation to the years ended 31 March 2006 and 31 March 2005 is included in note 2 to the Boots Group's audited financial statements for the year ended 31 March 2006 contained in Part VII ("Historical Financial Information Relating to the Boots Group") of this document.
"Trading Loss"	loss before taxation and net finance costs excluding (a) items which the Boots Directors consider one-off or unusual and (b) profits and losses on the disposal of non-current assets. A reconciliation from operating profit before finance costs to Trading Profit/(Loss) in relation to the years ended 31 March 2006 and 31 March 2005 is included in note 2 to the Boots Group's audited financial statements for the year ended 31 March 2006 contained in Part VII ("Historical Financial Information Relating to the Boots Group") of this document.
"UK" or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"UK GAAP"	UK Generally Accepted Accounting Principles
"UK Listing Authority" or "UKLA"	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA
"US" or "USA" or "United States"	the United States of America, its territories and possessions, any state in the United States of America and the District of Columbia

"US Securities Act"	the United States Securities Act of 1933, as amended
"US Securities Exchange Act"	the United States Securities Exchange Act of 1934, as amended
"Voting Record Time"	6.00 p.m. on the day which is two days before the date of the Court Meeting or, if such Court Meeting is adjourned, 6.00 p.m. on the second day before the day of such adjourned meeting

For the purposes of this document, "subsidiary", "subsidiary undertaking", "undertaking" and "associated undertaking" have the meanings given by the Act (but for this purpose ignoring paragraph 20(1)(b) of Schedule 4A of the Act).

All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

References to "£", "sterling", "p" and "pence" are to the lawful currency of the United Kingdom.

DOCUMENTS INCORPORATED BY REFERENCE

Boots' annual report and audited consolidated financial statements for the two financial years ended 31 March 2005 and 31 March 2004, which have previously been published and approved by the FSA or filed with it and are available for inspection in accordance with paragraph 19 of Part XIII ("Additional Information") of this document, contain information which is relevant to this document.

The table below sets out the sections of these documents which are incorporated by reference into, and form part of, this document, so as to comply with the Prospectus Rules. Only the parts of these documents identified in the list below and referred to in those parts of this document listed below are incorporated into, and form part of, this document. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this document.

Information incorporated into this document by reference	Location of incorporation
Boots' annual report and audited consolidated financial statements for the year ended 31 March 2005:	
(i) the consolidated financial statements of Boots for the financial year ended 31 March 2005, including statements for the parent company where applicable, including consolidated profit and loss account, consolidated balance sheet, consolidated cash flow statement, statement of total recognised gains and losses, reconciliation of movements in shareholders funds, note on historical cost profits and losses and notes to the financial statements (pages 46 to 67) and the Auditors Report (page 43).	Part VII — "Historical Financial Information relating to the Boots Group" (pages 79 to 137 of this document)
(ii) the corporate social responsibility review (pages 16 to 19) and the Corporate governance report (pages 27 to 31).	Part XII — "Directors, Responsible Persons, Corporate Governance and Employees" (pages 282 to 298 of this document)
Boots' annual report and audited consolidated financial statements for the year ended 31 March 2004:	
(i) the consolidated financial statements of Boots for the financial year ended 31 March 2004, including statements for the parent company where applicable, including consolidated profit and loss account, consolidated balance sheet, consolidated cash flow statement, statement of total recognised gains and losses, reconciliation of movements in shareholders funds, note on historical cost profits and losses and notes to the financial statements (pages 46 to 67) and (ii) the Auditors Report (page 43).	Part VII — "Historical Financial Information relating to the Boots Group" (pages 79 to 137 of this document)

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